LionOre

LionOre Mining International Limited

2003 ANNUAL REPORT

Lake Johnston Operation, decline portal, Emily Ann nickel mine

Notice of Meeting

The Annual General Meeting of the Shareholders of LionOre Mining International Ltd will be held on May 19, 2004 at 10:00am, in Salon I, Second Floor, 20 Toronto Street, Toronto, Ontario, Canada.

Corporate Directory

Directors and Officers:

Donald C. Bailey
Chairman of the Board

Gilbert E. Playford [1,2]
Vice-Chairman

Colin H. Steyn
President and Chief Executive Officer and Director

Ted Mayers
Chief Financial Officer and Corporate Secretary and Director

Oyvind Hushovd [2,3]
Director

Joshua Pitt [3]
Director

Louis-M. Riopel [1]
Director

Alan G. Thompson [1,2,3]
Director

Mark J. Ashley
Managing Director, Australian Operations

Marie Inkster
Corporate Controller

[1] *Audit Committee member*
[2] *Compensation Committee member*
[3] *Nominating Committee member*

Auditors:

Deloitte & Touche LLP

Transfer Agents:

CIBC Mellon Trust Company
320 Bay Street, Toronto
Ontario, Canada M5H 4A6
Telephone: 1 416 643 5500 or 1 800 387 0825

Capita Registrars
The Registry
34 Beckenham Road, Beckenham
Kent BR3 4TU
Telephone: 44 870 162 3100

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth, Western Australia 6000
Australia
Telephone: 61 8 9323 2000

Stock Symbol:

LIM (Toronto Stock Exchange)
Cusip: 535 913 107
LOR (London Stock Exchange)
LIM (Australian Stock Exchange)

Mineral Resource/Reserve Statements:

All estimates of Mineral Reserves and Resources contained or referred to in this report have been calculated in accordance with the Australian JORC Code, and would not differ materially if calculated in accordance with the CIM Standards adopted by the Canadian Securities Administrators under National Instrument 43-101. There is no guarantee that those parts of the Mineral Resources contained within this report that are categorized as Mineral Resources will ultimately convert to Mineral Reserves.

LionOre Offices:

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United Kingdom
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Facsimile: 44 20 7590 8899
E-mail: info@lionore.uk.com

LionOre Australia Pty Ltd
Level 2, 10 Ord Street, West Perth
Western Australia 6005, Australia
Telephone: 61 8 9481 5656
Facsimile: 61 8 9481 5823
E-mail: admin@lionore.com.au

Tati Nickel Mining Company (Pty) Ltd
PO Box 1272, Francistown, Botswana
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E-mail:tatinickel@tatinickel.co.bw

Western Minerals Technology Pty Ltd
Unit 1, 45 Edwards Street
Osborne Park, Western Australia 6017, Australia
Telephone: 61 8 9444 2611
Facsimile: 61 8 9444 2715
E-mail: info@wmt.com.au
Website: www.wmt.com.au

Throughout the text of this report:

Currency
- Except where otherwise stated, all $ amounts are US dollars

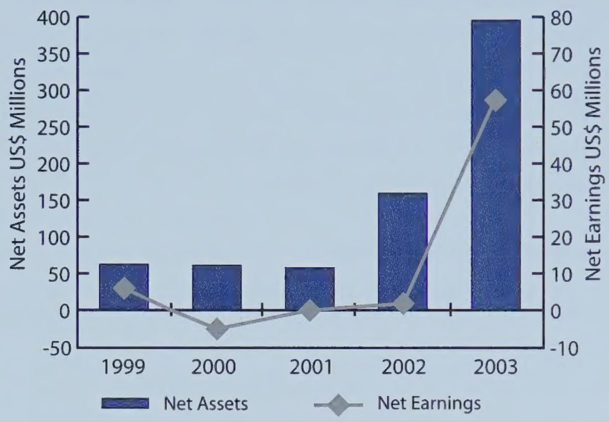
Company references
- LionOre means LionOre Mining International Ltd
- Tati Nickel means Tati Nickel Mining Company (Pty) Limited, an 85% owned subsidiary of LionOre
- LionOre Australia means LionOre Australia Pty Ltd, a wholly owned subsidiary of LionOre
- Forrestania means Forrestania Gold NL, a wholly-owned subsidiary of LionOre Australia
- LionOre Nickel means LionOre Australia (Nickel) Ltd, a wholly owned subsidiary of LionOre Australia
- WMT means Western Minerals Technology Pty Ltd, an 80% owned subsidiary of LionOre
- LionOre Wildara means LionOre Australia (Wildara) NL, a wholly owned subsidiary of LionOre Australia
- Dalrymple means Dalrymple Resources NL, a wholly owned subsidiary of LionOre Australia

Highlights

Financial/Corporate:

- Market capitalization of approximately $1 billion at year end
- Attributable production of 16,928 tonnes of payable nickel and 138,374 ounces of gold
- Operating earnings of $101.0 million achieved for 2003 (2002: $6.3 million), generating an after-tax profit of $58.1 million (2002: $2.7 million)
- Total cash and cash equivalents, including restricted cash, increased to $45.2 million (2002: $29.3 million) with a reduction in long-term debt to $77.0 million (2002: $102.0 million)
- Admission to the official list of the Australian Stock Exchange (ASX) achieved in August 2003
- Merger with ASX-listed Dalrymple Resources NL successfully completed in October 2003
- Private placement of shares to Inco Limited raising $15.4 million to repay project debt for the Emily Ann nickel mine development

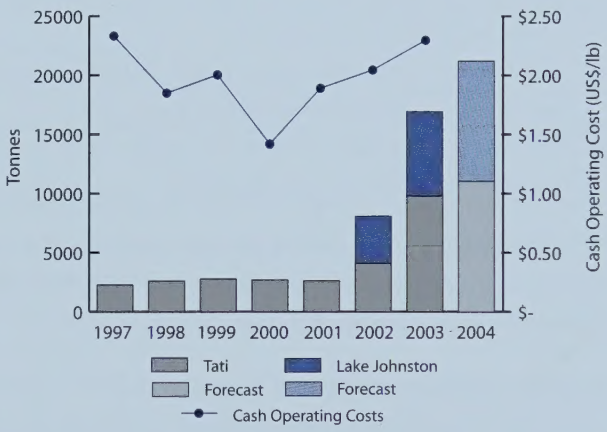
Asset/Earnings Growth



Botswana – Tati Nickel (LionOre 85%)

- Attributable production of 9,783 tonnes of payable nickel at a cash cost of $2.37 per pound of nickel produced
- Phoenix expansion project completed and by year end was exceeding targeted metal production by 10% primarily due to higher head grades and significantly improved nickel recovery exceeding Feasibility Study estimates by 6%
- Construction of the Activox® demonstration plant modules commenced in Perth and dispatched to Tati Nickel in Botswana for reassembly subsequent to year end
- Winner of Botswana Inter-mine Safety Competition and the Botswana Inter-mine Severity-Rate Competition for 2003

Attributable Nickel Production



Australia

- Emily Ann nickel mine produced 7,145 tonnes of payable nickel at a cash cost of $2.23/lb
- Thunderbox gold mine achieved attributable production of 138,374 ounces at a cash cost of $138/oz
- Development of Maggie Hays nickel sulfide project continued with first ore expected in late 2004
- Established a joint venture with ASX-listed Thundelarra Exploration Ltd on prospective nickel sulfide tenements in the East Kimberley region of Western Australia
- Leadership in environmental responsibility recognized with a prestigious Western Australian Government Award

Nickel Price (US$/lb)

Lionore at a Glance

Overview

LionOre is a profitable international mining company whose primary objective is to achieve continued growth through a combination of strategic acquisitions, exploration success, advancement of the Company's Activox® downstream metals technology and the identification and development of exploration and acquisition targets with the potential to become low-cost mining operations.

The Company currently owns:

- 85% of the Phoenix mine (Botswana – in production) and associated leases;
- 100% of the Emily Ann nickel sulfide mine (Australia – in production);
- 100% of the Maggie Hays nickel sulfide project (Australia – under development);
- 100% of the Thunderbox gold mine (Australia – in production) and surrounding tenements, as well as a number of other exploration properties in the Northeastern Goldfields region;
- 100% of the Waterloo and Amorac nickel sulfide deposits (Australia – under evaluation/ongoing exploration);
- 100% interest in the nickel rights of the Southern Cross region tenements (Australia – under exploration); and,
- 60% interest in the East Kimberley Joint Venture with Thundelarra Exploration Ltd (Australia – under exploration).

In addition, LionOre is implementing strategies designed to achieve the medium-term commercialization of its 80%-owned Activox® downstream hydrometallurgical technology, including:

- the successful processing of a number of nickel concentrates at the pilot plant in Perth on behalf of various companies, including Tati Nickel and Inco; and
- the design and construction of a demonstration plant to be installed at Tati Nickel's Phoenix mine in Botswana during 2004 to assess the economic viability of Activox® on the Phoenix orebody.

The LionOre Board of Directors develops long-term strategies and financing plans to pursue growth opportunities that are consistent with the strategic targets stated in this report.

The most immediate growth opportunities for the Company are to expand its production base through the development of new projects and the expansion of current operations and to make new investments in base and precious metals where it is perceived that LionOre can add substantial value for its shareholders.

LionOre is well positioned to benefit from the significant advances made by the Company over the past five years.

Important aspects that will ensure long-term growth for the Company include:

- the current strong nickel market environment, which places LionOre in a favourable financial position;
- the strong performance of the Phoenix expansion project at Tati Nickel, which has exceeded expectations;
- the expansion of the Lake Johnston nickel operations in Australia (Emily Ann nickel mine) with the development of the nearby Maggie Hays nickel sulfide project;
- the potential expansion of the Northeastern Goldfields operations (Thunderbox gold mine) in Australia through ongoing exploration, resource/reserve conversion and the potential development of the nearby Waterloo and Amorac nickel sulfide deposits;
- continued exploration of LionOre's highly prospective regional exploration ground-holdings – the prospectivity of which is evidenced by the discovery, in the past six years, of the Waterloo and Amorac nickel sulfide deposits and the two million ounce Thunderbox gold deposit;

Tati Nickel, Botswana, Phoenix open pit

Lake Johnston Operation, treatment plant

- LionOre's proven ability to identify highly prospective properties and secure a strategic position for long-term growth (eg. Tati Nickel, Lake Johnston – Emily Ann/Maggie Hays, Northeastern Goldfields – Thunderbox gold and Waterloo/Amorac nickel, and the East Kimberley region of Western Australia – Thundelarra Joint Venture);
- a highly experienced corporate management group;
- a network of committed strategic investors with a high level of knowledge and expertise in the mining and downstream metal processing industries;
- a significant depth of in-house technical and financial expertise required to assess potential investments and acquisitions; and
- proven ability to identify and evaluate attractive investment opportunities, raise the required capital and consummate transactions, as well as the management expertise to implement new projects.

During 2003, LionOre's achievements in the critical area of Health, Safety and Environment in both Australia and Botswana were recognized. LionOre's wholly-owned subsidiary, LionOre Nickel, received the Corporate/Business Leading by Example Award for environmental excellence from the Western Australian government. This award places LionOre at the forefront of environmental management across all industries in the State of Western Australia. In Botswana, Tati Nickel was the winner of both the Inter-mine Safety Competition and the Inter-mine Severity-Rate Competition.

Corporate Strategies

LionOre's long-term goal is to become a major international mining company through the following strategies to increase shareholder value:

- Enter into joint ventures with strategic partners to acquire equity interests in exploration, mining and downstream operations;
- Identify, invest in and develop exploration projects with the potential to become low-cost mining operations;
- Identify, acquire and develop mining operations that can be turned into low-cost producers by the management and operating resources of the Company; and
- Develop the Activox® technology with a view to commercialization in the medium-term.

Three-Year Strategic Targets

- To be recognized as a profitable and growing international mining company with significant producing and exploration properties in Australia, Botswana and other mining regions of the world;
- To increase attributable nickel production to not less than 30,000 tonnes per year;
- To build on the existing asset base at Thunderbox to provide a sustainable production level in excess of 200,000 ounces of gold per annum;
- To expand existing operations in Western Australia and Botswana and to establish important and strategic production bases in highly prospective regions;
- To successfully commercialize the Activox® hydrometallurgical technology;
- To retain, enhance and utilize LionOre's corporate and financial management capacity to rapidly pursue and capitalize on appropriate opportunities in the international mineral business.

President's Letter

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March 19, 2004

Dear Shareholder,

It is my pleasure to present to you the Annual Report of LionOre Mining International for 2003, a period which has marked the first year of full production from all of our mines and given the first real indication of the substantial earnings and growth potential of our Company.

Having achieved all of our key targets for the year with respect to nickel production, LionOre is well on track to meet its three-year strategic target of annual attributable nickel production of 30,000 tonnes. Production this year will increase to over 20,000 tonnes per annum from our operations at Tati in Botswana and Lake Johnston in Australia (2003 attributable production: 16,928 tonnes), positioning the Company strongly in the current positive nickel environment.

The medium-term outlook for the global nickel market in 2004 and 2005 is very strong, with underlying demand – driven in large part by the rapidly expanding Chinese stainless steel industry – expected to exceed the quantity of available metal. During this period there is very little prospect of any meaningful increase in the supply of nickel.

LionOre is in an excellent position to benefit from this situation, with nickel output set to increase through the commissioning of the Maggie Hays Project development in Australia later this year and significant advances being made with our proprietary Activox® hydrometallurgy process. This hydrometallurgical strategy adds a further important dimension to LionOre's growth strategy in nickel, and will help to cement our position as a top-10 Western World producer.

Our achievements during the year included:

Botswana:

- commissioning of the Phoenix expansion project at Tati Nickel (LionOre 85%), with the production of payable nickel increasing by more than 54% to 11,509 tonnes for 2003 (2002: 7,477 tonnes) at a cash cost of $2.37 per pound (2002: $2.35 per pound); and
- construction of modules of the Activox® demonstration plant completed in Perth, Western Australia for installation at Tati Nickel in Botswana. Assembly commenced on site in March 2004 with the plant scheduled to operate at Tati during 2004.

Australia:

- a strong production performance at the Emily Ann high-grade underground nickel mine (LionOre 100%), with payable nickel production increasing by 35% for the year to 7,145 tonnes (2002: 5,301 tonnes) at a cash cost of $2.23 per pound (2002: $1.96 per pound);
- commencement of development of the Maggie Hays nickel sulfide deposit, located adjacent to Emily Ann, with ore production scheduled to start in late 2004, increasing nickel production from the Lake Johnston Operation to around 11,000 tonnes per annum by late 2004; and
- a strong first full year of production at the Thunderbox gold mine (LionOre 100%), located in the Northeastern Goldfields of Western Australia, which produced a total of 212,459 ounces of gold at a cash cost of $138 per ounce.

A number of significant corporate transactions were completed during the year, including:

- the merger with Dalrymple Resources NL, resulting in LionOre increasing its ownership of the Northeastern Goldfields assets (Thunderbox, Waterloo, Amorac) from 60% to 100%;
- the listing of LionOre shares on the Australian Stock Exchange, completing our third international stock market listing alongside Toronto and London; and
- an agreement with Thundelarra Exploration Ltd, a publicly traded Australian company, to earn a 60% interest in their highly prospective nickel sulfide exploration tenements in the East Kimberley region of Western Australia, giving LionOre a strategic position in one of Australia's most exciting new areas for nickel exploration.

We have a number of organic growth opportunities which are expected to come to fruition this year. In addition, we are assessing a number of potentially significant external opportunities – any of which could considerably advance LionOre's long-term growth strategy.

In Botswana, commissioning of the Activox® demonstration plant is expected to prove the effectiveness of our hydrometallurgical technology. If the demonstration plant is successful and a full-scale Activox® hydrometallurgical plant is constructed at LionOre's 85% owned Phoenix mine, production could reach 18,000 – 19,000 tonnes of payable nickel per annum by 2007.

In Australia, our momentum for near-term growth will come from:

- a significant expansion in nickel production from the Lake Johnston Operation, with completion of the Emily Ann plant upgrade and commencement of ore production from Maggie Hays; and
- assessment of an exploration development option for the Waterloo nickel deposit, which could yield early nickel production and provide a more effective exploration platform.

In addition to the installation of our Activox® demonstration plant at Tati Nickel, we are continuing to make significant progress in the broader development of our hydrometallurgical strategy, with test work continuing in Perth, Western Australia both on Tati and third-party concentrates with very positive results. LionOre is currently conducting pilot testwork for Inco's Voisey's Bay Project.

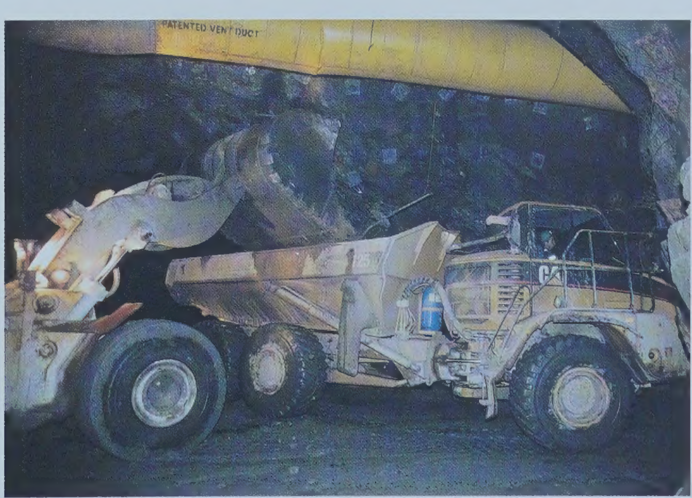
Turning to LionOre's financial results, 2003 reflected the significant evolution of our Company over the past few years. Net earnings for the year increased significantly to $58.1 million or $0.34 per share (2002: $2.7 million or $0.02 per share) on mineral sales of $292.8 million (2002: $62.0 million).

This strong sales and earnings performance reflected both the significant increase in the nickel price as well as strong production performances at Tati, Emily Ann and Thunderbox. The nickel price averaged $4.37/lb for the year compared with $3.07/lb in 2002, rising sharply to an average of $5.62/lb for the fourth quarter of 2003. The financial result was particularly pleasing given that it was achieved despite the significant appreciation of currencies against the US dollar in all the countries in which we operate, which had an adverse effect on our operating expenses.

LionOre's financial position is very strong, with $45 million of cash in the bank at year-end. Our long-term debt was reduced from $102 million at the end of 2002 to $77 million at the end of 2003, even after absorbing an additional $10.5 million in debt from the merger with Dalrymple Resources NL and borrowing $7 million for construction of the Activox® demonstration plant for Tati. With significant cash being generated from our operations, it is expected that cash on hand will exceed debt during 2004.

At this time of vigorous growth opportunity and increasing activity within our organization, we should not lose sight of the most important component in our continuing success; our people. I would like to extend a welcome to Mr Joshua Pitt, who joins our Board from Dalrymple Resources NL and thank Mr Doug Coate for his valuable contribution since the inception of LionOre. On behalf of all Board members, I would like to congratulate LionOre's management team and employees for their outstanding efforts during the year. Together, we are looking forward to even greater achievement in 2004.

Colin Steyn
President and Chief Executive Officer



Lake Johnston Operation, underground mining operations, Emily Ann nickel mine

Profile Of Directors

Donald C. Bailey – Chairman

Mr Bailey was appointed Vice Chairman of the Company in November 1999 and Chairman in May 2001 with responsibility for business development having served as President and Chief Executive Officer from June 1998 until November 1999. He has been Chief Executive Officer of Management Mining Services International Ltd since 1993 and prior to that was Deputy Mining Director with RTZ plc responsible for operations in Europe, Africa and South America. Mr Bailey has been a Director of the Company since 1997.

Gilbert E. Playford – Non-Executive Vice Chairman

Mr Playford is Non-Executive Chairman of GrafTech International Inc. Prior to June 1998 he was President and Chief Executive Officer of the Company. He held a number of executive positions with Union Carbide Corporation from 1972 until his resignation as Chief Financial Officer in February 1996. Mr Playford has been a Director of the Company since 1996 and holds an MBA from York University, Ontario.

Colin H. Steyn – President and Chief Executive Officer of the Company

Prior to joining LionOre, Mr Steyn was Executive Director in charge of metallurgical operations for Rio Tinto in Zimbabwe and a Director of Centachrome, a metals marketing organisation. Mr Steyn was appointed a Director of the Company in 1998, and President and Chief Executive Officer in November 1999. He holds an MBA from Cranfield University, UK.

Ted Mayers – Chief Financial Officer and Corporate Secretary of the Company

From 1994 until September 1996, Mr Mayers was Vice-President, Controller of Diversey Corporation. Prior to 1994, he was Vice President, Treasurer of Diversey Corporation. Mr Mayers has been a Director of the Company since 1997, is a qualified Chartered Accountant in Canada and holds an MBA from the University of Western Ontario.

Louis-M. Riopel

Mr Riopel was Senior Vice President of La Société Général de Financement de Quebec prior to 1998 and is a Director of a number of public and private Canadian corporations. Mr Riopel has been a Director of the Company since 1996.

Alan G. Thompson

Mr Thompson is the former Chairman of the Company, past President and Chairman of the Investment Dealers Association of Canada and a former Chief Executive Officer of a major Canadian investment firm. He serves on the Board of Directors of a number of public companies and has been a Director of the Company since 1974.

Oyvind Hushovd

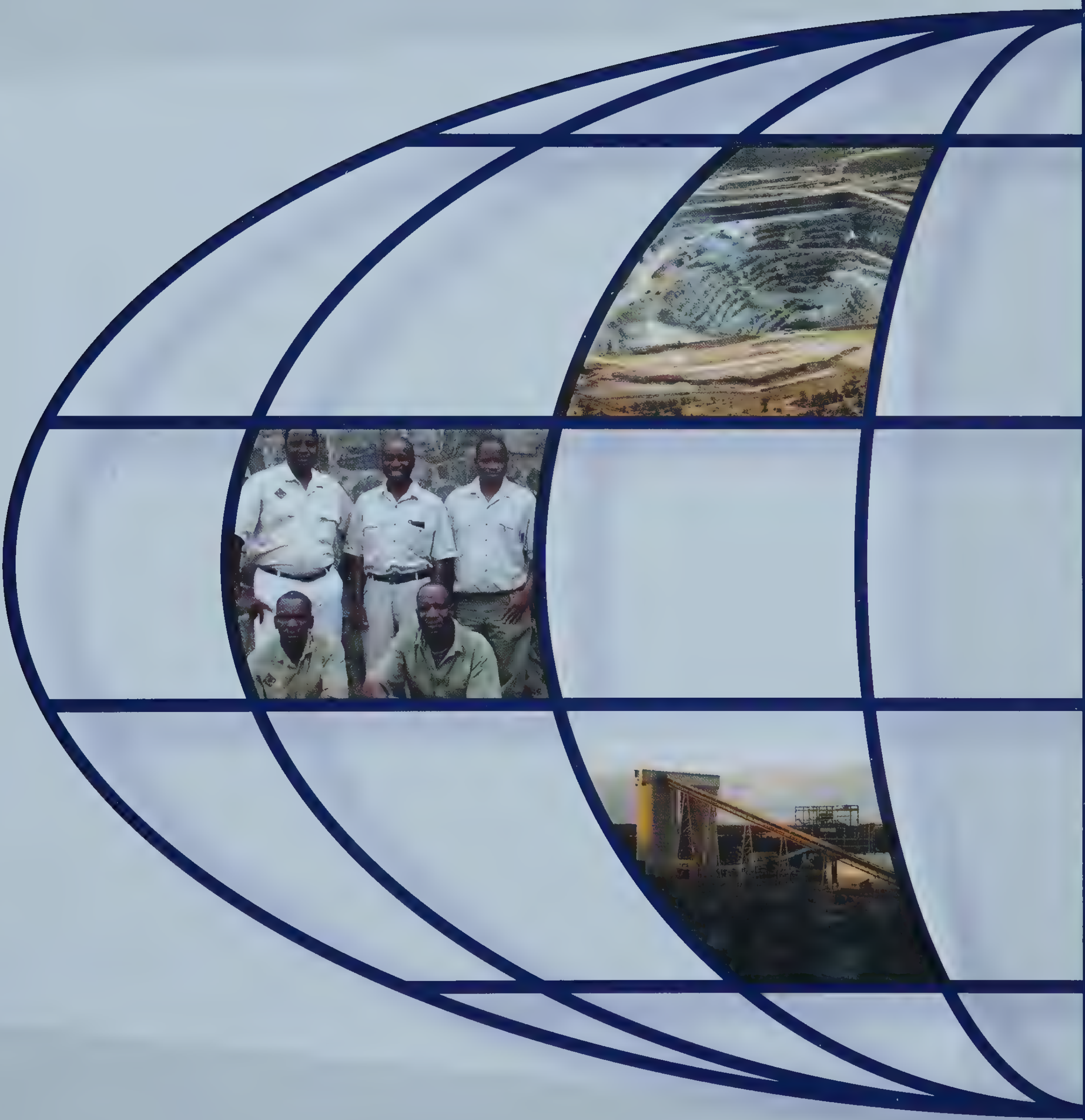
Mr Hushovd is an experienced mining executive, having spent 28 years with Falconbridge Limited, where he held the office of President and Chief Executive Officer from 1996 to 2002. Mr Hushovd is currently Chairman and Chief Executive Officer of Gabriel Resources Ltd. He joined LionOre as a Director in early 2003.

Joshua Pitt

Mr Pitt is a geologist with substantial exploration experience who has, for more than 25 years, been a director of a number of exploration and mining companies in Australia. He also serves on the Boards of Hampton Hill Mining NL, Traka Resources Ltd and Red Metal Ltd. Mr Pitt was appointed to the Board in November 2003. He was previously a Director of Dalrymple Resources NL.

Tati Nickel, Botswana – Phoenix mine

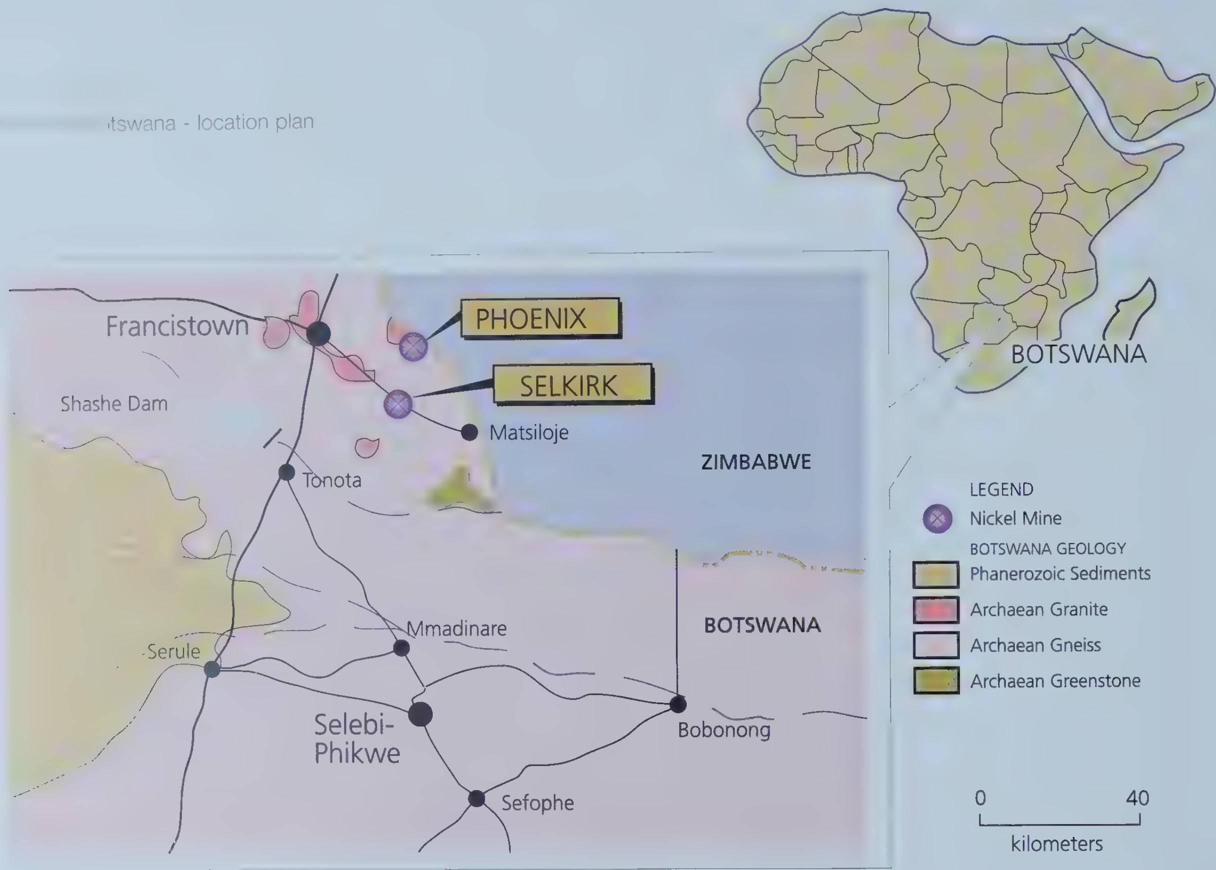
Review Of Operations – Tati Nickel, Botswana



Review Of Operations – Tati Nickel, Botswana

Tati Nickel Mining Company (Pty) Limited – (LionOre 85%)

tswana - location plan



The Tati area in Botswana has a long mining history with ancient copper workings dating back as far as 600AD, which exploited the gossan outcrops of the present operations. In 1985, Francistown Mining and Explorations Limited (FME) was formed to develop the Selkirk and Phoenix nickel and copper sulfide deposits, which are situated within 15 kilometers of each other, approximately 40 kilometers east of Francistown in northeastern Botswana.

To facilitate this development, a new company, Tati Nickel Mining Company (Proprietary) Limited, was formed in 1988 and has evolved into the present-day corporate structure. In the second half of 2002, LionOre increased its ownership of Tati Nickel to 85% by acquiring Anglo American's 43.35% interest. The Government of Botswana owns the remaining 15%.

In the latter part of 1987, Centametall AG, a leading international metals trading company, agreed to purchase ore and concentrates from the Selkirk and Phoenix deposits. Centametall has a custom smelting contract with BCL, an integrated nickel and copper mining, concentrating and smelting operation located some 200 kilometers by road to the south of the Tati operations.

Centametall also holds custom refining contracts with Rio Tinto's Empress Nickel Refinery in Zimbabwe and with Falconbridge in Norway to toll convert the BCL matte into refined nickel and copper. The high quality nickel and copper produced from the refiners is then sold in international markets by Centametall.

The Selkirk underground mine was commissioned in 1989 and until 2000 produced at a rate of 60,000 tonnes of ore per annum for direct smelting at BCL. Production in 2001 reduced to 30,000 tonnes due to depletion of the massive sulfide ore body. In 2002, production from Selkirk was derived mainly from a partial pillar extraction campaign, which yielded 20,642 tonnes. The mine was placed on care and maintenance at the end of the third quarter of 2002.

The Phoenix mine and dry magnetic separation plant commenced production in May 1995. Through various process and engineering upgrades, plant throughput was increased from 1.2 million tonnes per annum to 1.7 million tonnes per annum. In 1999, a Feasibility Study to upgrade annual throughput to 3.6 million tonnes of ore per annum (12,500 tonnes of payable nickel) and to construct a wet concentrate treatment facility on site was completed, resulting in a decision to proceed with the expansion.

Concentrator Expansion – Phoenix Mine

The Phoenix orebody has been mined profitably since 1995 utilizing selective mining and dry magnetic separation techniques. As a consequence of successful exploration, which substantially increased the Mineral Reserves at Phoenix, an expansion project to construct a conventional flotation concentrator on site and associated power and water supply infrastructure was commenced in 2000.

Construction of the Phoenix expansion project was completed in 2002 and commissioning of the wet concentrator commenced in the second quarter of 2002. By the end of the fourth quarter of 2002, the production rate had ramped up to over 9,000 tonnes of payable nickel per annum.

Continuous improvements to the circuit and ongoing optimization during 2003 further increased nickel recoveries by 6% to 89% compared to the original Feasibility Study estimate of just under 83%.

Operating Performance – Phoenix Mine

During 2003, 14 million tonnes of material were mined from the Phoenix open pit with an overall waste to ore ratio of 3.9:1 achieved. The depth of the pit has extended to 140 meters with the current ultimate pit design being 280 meters.

In 2003, payable nickel totalled 11,509 tonnes (53% higher than 2002). Payable copper sold during 2003 totalled 8,141 tonnes (79% higher than 2002).

Salient production statistics are tabulated below:

Production	2003	2002	2001	2000	1999	1998	1997
Phoenix Open Pit Mine:							
Tonnes Concentrate	278,746	145,543	124,565	121,324	120,826	113,731	94,333
Nickel Grade (%)	5.68	5.99	5.91	5.80	5.65	5.54	5.68
Copper Grade (%)	3.57	4.74	1.67	1.46	1.48	1.47	1.27
Selkirk Underground Mine:							
Tonnes Ore Delivered	-	24,789	31,341	58,086	70,160	69,207	67,675
Nickel Grade (%)	-	2.69	2.60	2.60	2.63	2.67	2.62
Copper Grade (%)	-	1.70	1.42	1.64	1.67	1.69	1.85
Payable Metals:							
Nickel (tonnes)	11,509	7,477	6,305	6,483	6,680	6,247	5,425
Copper (tonnes)	8,141	4,551	2,157	2,354	2,595	2,512	2,234
Palladium* (ounces)	33,039	18,383	11,400	10,839	-	-	-
Platinum* (ounces)	5,396	2,793	1,170	1,401	-	-	-
Cobalt* (tonnes)	71	36	26	38	-		
Gold * (ounces)	950	670	142	252	-	-	-
Silver * (ounces)	6,549	5,129	-	1,356	-	-	-
Cash Operating Costs (US$/lb)	2.37	2.35	1.83	1.44	1.99	1.81	2.32

* *Effective January 2000, revised off-take arrangements provided credits for by-product metals.*

Activox® Hydrometallurgical Process

Following approval of a $10.0 million budget for the design, construction and operation of an Activox® hydrometallurgical demonstration plant at the Phoenix site, LionOre's subsidiary, Western Minerals Technology, in conjunction with Tati Nickel, carried out the design and construction of a skid-mounted plant in Western Australia.

The plant will be installed at the Phoenix mine to facilitate the training of operating and maintenance personnel in addition to establishing the economic viability of the Activox® hydrometallurgical process at Tati. Furthermore, at a scale-up factor of 1:170, this facility will also provide valuable information in respect of optimizing and testing the construction materials required for the design of the full-scale refinery, thereby greatly reducing the technical risk of installing a hydrometallurgical plant in Botswana or elsewhere in the world.

The plant modules are being transported from Western Australia to Botswana with commissioning expected to take place during the second quarter. The plant is scheduled to be operating on a continuous, fully integrated mode from successful commissioning through to the end of 2004. Also during 2003, GRD Minproc was appointed to conduct a Definitive Feasibility Study on the establishment of a hydrometallurgical facility at the Phoenix mine. Information generated from the demonstration plant will be factored into this study at the end of 2004.

Review Of Operations – Tati Nickel, Botswana

The Phoenix Ni-Cu-PGM sulphide deposit comprises a broad zone of disseminated sulphides enveloping a stacked series of narrow, structurally controlled massive sulfide lenses, hosted by a meta-gabbro intrusion. The individual massive sulfide lenses, which enhance the overall deposit average grades, can contain up to 8% nickel while the disseminated mineralization typically has a grade of about 0.40% Ni.

The Selkirk deposit, which was exhausted in late 2002, was a shallow (30º) plunging zone of lower tenor (2.6%Ni and 1.6% Cu) massive sulfide mineralization, measuring 200 meters in length, 100 meters in width and up to 25 meters in thickness and which extended down to a maximum depth of 150 meters below the surface. The massive sulfides are enveloped by a broad zone of low grade disseminated sulfides, hosted by a meta-gabbro intrusion.

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A $2.0 million exploration program, aimed at testing the additional resource potential commenced in 2003. An extensive ground induced polarisation (IP) and magnetotelluric (MT) geophysical survey was carried out over both the Phoenix and Selkirk areas.

Phoenix

At Phoenix, the geophysical survey delineated a series of anomalies to the north and south of the open pit. An initial program of reverse circulation percussion (RCP) drilling and follow-up diamond drilling was carried out on a wide-spaced 120 x 100 meter grid to the south of the pit. This phase of drilling, supported by downhole electromagnetic (DHEM) surveying, delineated encouraging indications of disseminated sulphide extensions, with subordinate associated massive sulphide lenses, which are being evaluated more comprehensively, by a follow-up program of infill diamond drilling on a 30 x 50 meter grid.

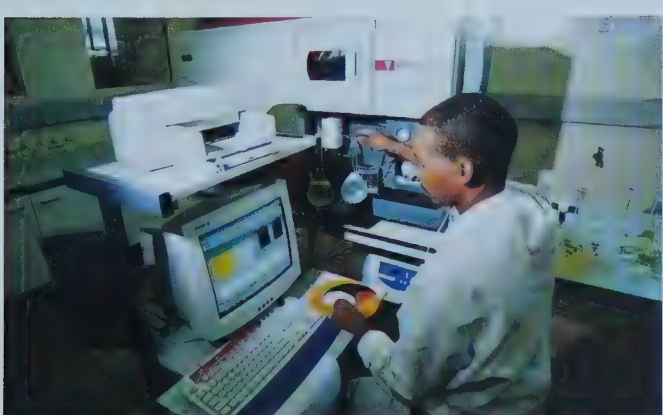
By the end of 2003 a total of 52 diamond drillholes totalling 15,512 meters of drilling had been completed south of the open pit. It is planned that this drilling program, comprising a total of about 36,000 meters will be completed by mid-second quarter of 2004 with the objective of increasing reserves.

Significant PGM mineralization was intersected over two zones in vertical drill hole DR174, which tested the source of an IP-MT anomaly 1,500 meters along strike to the north of the open pit. The upper intersection returned 2.78 meters at 0.28% Ni, 1.56% Cu, 2.37g/t Pt, 6.11g/t Pd and 0.39g/t Au from a downhole depth of 414.04 meters. The lower intersection returned 2.48 meters at 1.34% Ni, 1.89% Cu, 19.45g/t Pt, 40.47g/t Pd and 0.57g/t Au from a depth of 484.93 meters.

Tati Nickel, plan view of Phoenix open pit

Initial wide spaced follow-up diamond drilling of four inclined boreholes confirmed continuity with surface metal in soil anomalism on a moderate apparent dip (on east-west section). These holes intersected narrower widths and lower grades of precious metal mineralization. However, further closer spaced drilling is warranted to determine the full potential of the mineralization.

In addition, diamond drilling will be undertaken over a broader area north of the open pit to determine the potential for extensions of the broader disseminated Ni-Cu mineralization.



Tati Nickel, Laborartory testing at processing facility

Selkirk

The surface IP and MT geophysical survey delineated a number of anomalies over the Selkirk and nearby Tekwane meta-gabbro intrusions. Key anomalies at Selkirk were tested by 10 diamond drill holes which, together with DHEM geophysical surveying, indicate the presence of disseminated and possible massive sulfide mineralization, developed semi-continuously over a distance of about 1,500 meters, down-plunge from the Selkirk underground workings.

At Selkirk, selected encouraging drill hole intersections require follow-up, including 3.47 meters grading 11.34g/t Au, 0.49% Ni and 0.85% Cu from a downhole depth of 212 meters in quartz veined basal contact mineralization in diamond drill hole DSLK002 and 1.42 meters of massive sulfides grading 2.79% Ni and 2.21% Cu within a 57 meter package of disseminated and semi-massive sulfides averaging 0.35% nickel and 0.47% copper in diamond drill hole DSLK003.

Further drilling will be undertaken in 2004, to follow-up these encouraging results, after completion of the Phoenix program.

Tati Nickel, Selkirk area plan with target zones

Review Of Operations – Tati Nickel, Botswana

Mineral Resource (including Mineral Reserves) Phoenix deposit (as at December 31, 2003)

Deposit	Category	Mt	%Ni	%Cu	Contained Metal (t) Ni	Cu
Phoenix 2003 Mineral Resource	**Indicated**	**142**	**0.29**	**0.17**	**408,313**	**237,052**
Phoenix 2002 Mineral Resource		145	0.30	0.17	428,000	248,000

3 Phoenix Resource has been estimated at 0% cut-off grade within defined mineralized domains.

Mineral Reserves Phoenix deposit (as at December 31, 2003)

Deposit	Category	Mt	%Ni	%Cu	Contained Metals (t) Ni	Cu
Phoenix 2003 Mineral Reserve	**Probable**	**37.6**	**0.55**	**0.34**	**206,564**	**127,683**
Phoenix 2002 Mineral Reserve		40.4	0.56	0.34	226,463	137,497

neral Resource was estimated and verified by Christina Dohm and Geoff Gushee (both full-time employees of MinRED, a division of the Anglo American Group). al Reserve was estimated by Pierre Fourie (a full-time employee of Lower Quartile Solutions) and is based on the January 2003 Whittle 4X optimization. Ms Gushee and Fourie each satisfy the requirements of a Competent Person as defined in the Australian JORC Code and a Qualified Person as defined in Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects).

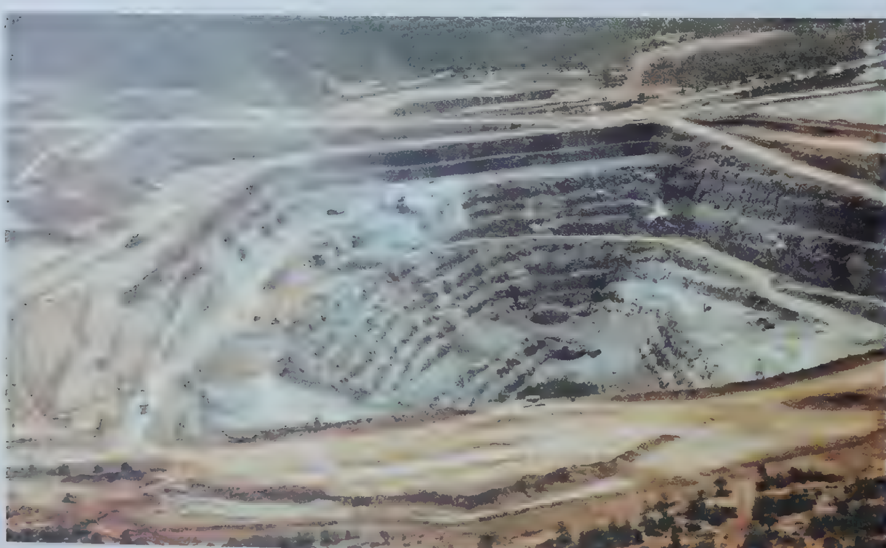
For the Mineral Reserve a cut-off grade of 0.25% Ni was adopted.

the Mineral Resources in comparison to the previous evaluation (2002) are due to mining depletion through the period from January to December 2003.

ng activity has now exposed the ore body to 140 meters below surface. Evidence from drill holes supports the lateral continuity and extension of the gabbroic host and mineralization with a high degree of spatial variability. A lower proportion of mineralization is expected in the lateral extents of the deposit and this is considered in the resource model.

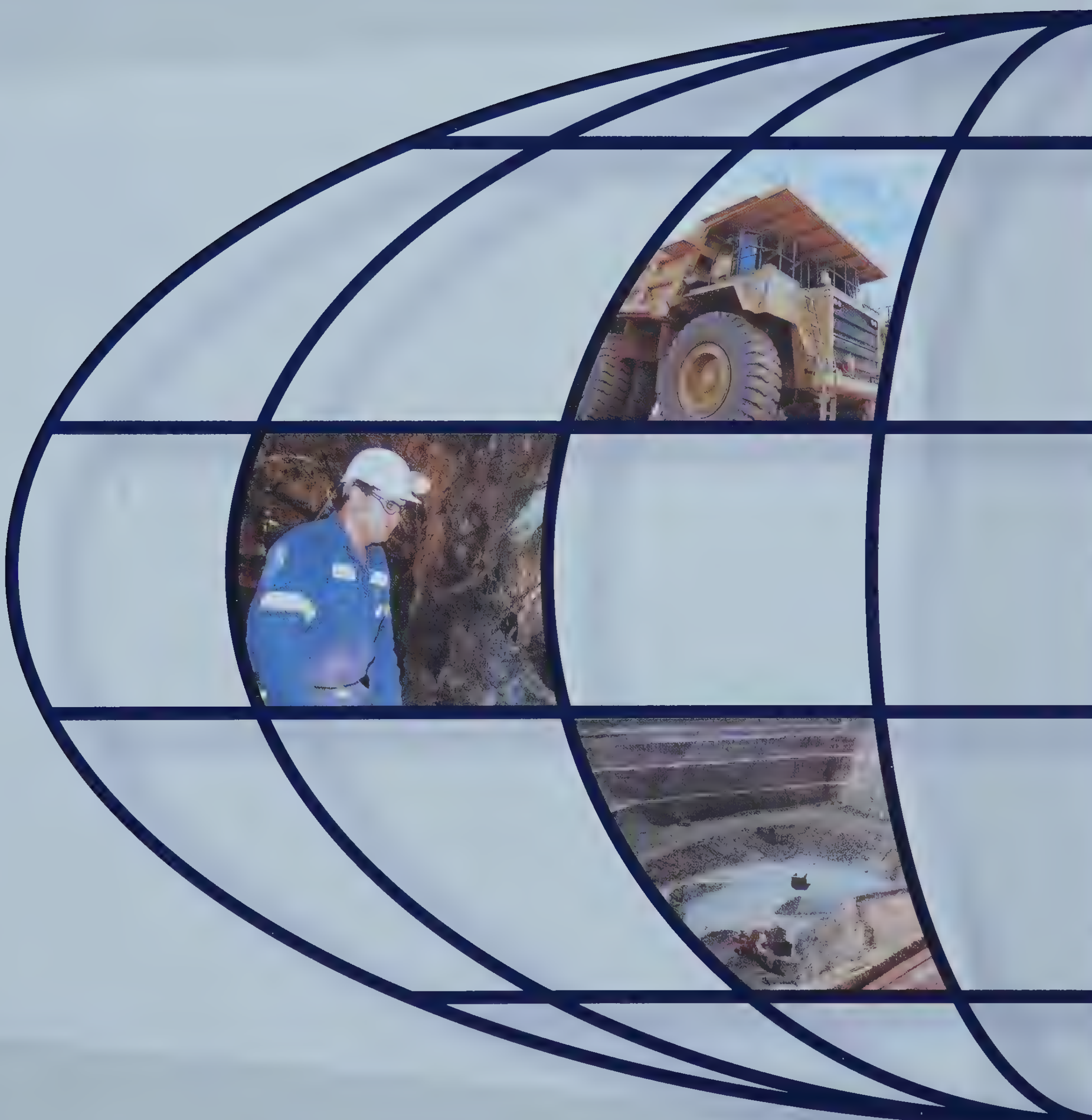
The sulfides comprise significant economic concentrations of platinum group metals (PGMs) particularly palladium. However the historical drilling lacked s of the PGM's. An evaluation of the PGM potential of Phoenix was undertaken in conjunction with MinRED during 2003. To overcome the ficiency in PGM sampling, analyses were collected from the 2002 drilling program, to establish a broad PGM sample coverage of the deposit, to determine relationships between the distribution of the PGM's and nickel.

While additional representative data is required, that collected to date indicates possible Pd-Ni and Pt-Ni relationships having a degree of continuity oss the deposit. If further sampling establishes that these relationships are representative they may be able to be modeled, to estimate an indicative PGM resource/reserve.



Tati Nickel, Botswana, Phoenix open pit

Review Of Operations – Australia



Review Of Operations – Australia

The Company's interests in Australia are held through its wholly owned subsidiary LionOre Australia, and include:

- 100% of both the high grade Emily Ann nickel mine (which commenced production in November 2001) and the Maggie Hays nickel sulfide deposit (located 3 kilometers to the south) in the Lake Johnston greenstone belt of Western Australia (see page 18);
- 100% of the Thunderbox gold operation and associated tenements located in the Northeastern Goldfields region of Western Australia (see page 26);
- 100% of the high grade Waterloo nickel sulfide deposit, located 5 kilometers north of the Thunderbox deposit (see page 31);
- An extensive and highly prospective nickel and gold exploration portfolio located within Western Australia including a strategic interest in Thundelarra Exploration and a major exploration joint venture with Thundelarra on the 2,800 square kilometer East Kimberley nickel project (see pages 34 and 35); and
- An 80% interest in Activox®, a medium pressure, medium temperature downstream metals processing technology (see page 38).

Australian operations, environmental planning

Location of Lionore Projects, Australia

ldfields, mining,

Review Of Operations – Lake Johnston, Australia

Review Of Operations – Lake Johnston, Australia

Overview

The Lake Johnston Operation is located some 540 kilometers east of Perth, Western Australia. The regional tenement package held by LionOre covers in excess of 700 square kilometers in the immediate Lake Johnston region (100%-owned) and a further 1,000 square kilometers in the nearby Forrestania region (100% of nickel rights).

LionOre commenced operations in the Lake Johnston region with the development of the Emily Ann nickel sulfide deposit during 2001. The Emily Ann mine posted another strong production performance during 2003 with the processing plant achieving an equivalent annual throughput rate of 300,000 tonnes by year end.

A major expansion of the Lake Johnston Operation commenced with development of the Maggie Hays nickel mine starting in early 2003. As part of this expansion, a staged upgrade of the Emily Ann processing plant (from 250,000 tonnes per annum to 500,000 tonnes per annum) commenced in 2003, with completion scheduled for the second half of 2004.

The Lake Johnston Operation operates with a fly-in, fly-out workforce from the Western Australian capital city of Perth. On-site infrastructure includes a 240-person accommodation village, an administration complex and modern communications systems.

A summary of production statistics can be found on page 57 in the Management's Discussion and Analysis section of this report.

Processing Operations

Ore processing at LionOre's Lake Johnston Operation involves a conventional nickel sulfide flotation plant to upgrade the ore to a final concentrate product grading 14-15% nickel.

A total of 283,201 tonnes of ore was processed during 2003 at an average grade of 3.11% nickel to produce 52,175 tonnes of concentrate.

Lake Johnston Operation, aerial view of mine and mine infrastructure

The processing plant performed well throughout the year, with the throughput rate steadily increasing from 250,000 tonnes per annum at the start of the year to a rate of 300,000 tonnes per annum by year end. This reflected progressive modifications made to the plant as part of the overall plant upgrade associated with the Maggie Hays mine development.

The combined Maggie Hays and Emily Ann production profile in 2004 is forecasted to achieve annualized payable nickel production of around 10,000 tonnes. Maggie Hays is expected to be in production from the fourth quarter of 2004.

Operating Costs

2003 cash operating costs for the Lake Johnston Operation averaged $2.23 per pound of payable nickel. These costs were influenced during the year by the higher nickel price (due to price participation in the off-take agreement with Inco) and the impact of the rising Australian dollar.

Off-take Agreements

LionOre Nickel has a life-of-mine off-take agreement with Inco Limited for the sale of concentrate from the Emily Ann and Maggie Hays mines. Concentrate is trucked from the Lake Johnston Operation to Esperance in Western Australia (approximately 350 kilometers by road) for shipment to Inco's refining and smelting facility in Sudbury, Canada.

Emily Ann Nickel Mine

Mining

The Emily Ann orebody is accessed by a decline ramp system from the base of a boxcut located 800 meters east of the orebody.

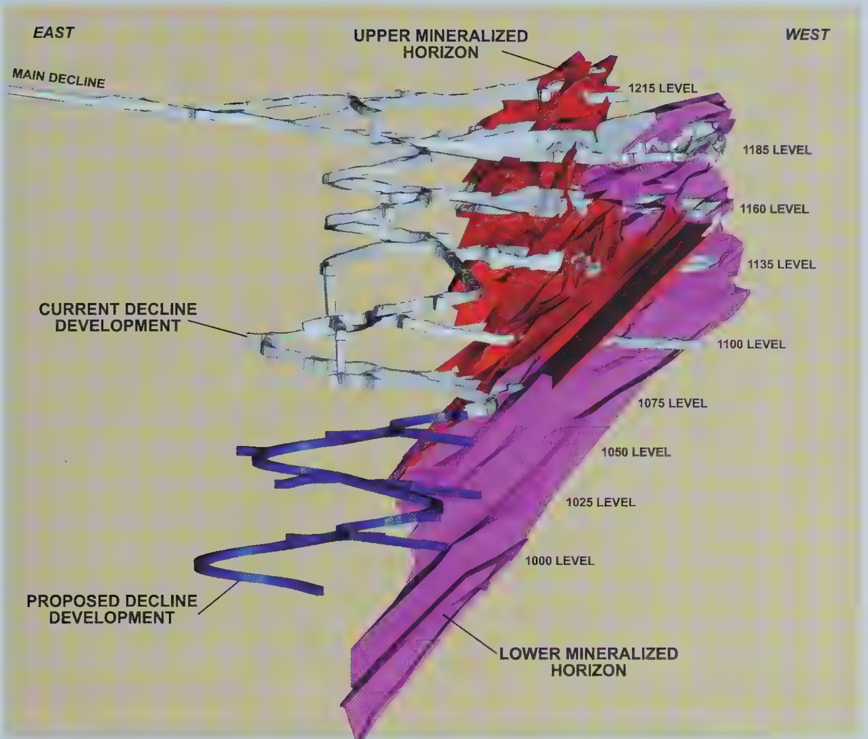
Total ore production from the Emily Ann mine for 2003 was 292,000 tonnes grading 3.06% nickel for 9,052 tonnes of contained nickel metal.

During the course of the year, the main decline advanced a total of 430 meters (from the 1132mRL to the 1069mRL), which allowed access to the orebody at the 1100 and 1075 stoping horizons (in addition to the 1215, 1185, 1160 and 1135 stoping horizons previously accessed during 2001/02). The surface RL is approximately 1355mRL.

The primary ventilation system was extended from the 1169mRL to the 1085mRL with 58 meters of vertical development completed during 2003.

Total lateral development completed during the year was 1,554 meters (including the main decline), comprising stope accesses, strike driving and ancillary development.

Mining operations during 2004 will see the completion of the main decline to the extent of the current mining reserve at 1,000 meters RL, which will enable the ore body to be accessed at the 1050mRL, 1025mRL and 1000mRL horizons.



Lake Johnston Operation, Emily Ann nickel mine - 3D view with mine layout

To the north, down-plunge below 1160mRL, the proportion of ultramafic rocks diminishes and becomes subordinate to the felsic rocks as the main host to the mineralization.

Close-spaced underground diamond drilling was carried out in 2003 to better delineate the internal physical and grade variability and characteristics of the mineralization prior to the development of successive levels of the deposit. Some 60 holes were drilled totalling 5,737 meters. The drilling targeted the mineralized zones down to 1,000mRL and to 101800mN. The drilling confirmed the overall distribution of the mineralization within the current and planned mining areas.

Further drilling during 2004 will target mineralization in proximity to the Emily Ann orebody with the potential to further extend the mine life. Ore production during 2004 is budgeted to remain at the current rate of 320,000 tonnes per annum although the opportunity exists to increase this rate.

Reconciliation of production against the 1998 Mineral Reserve (prior to mining) estimated for completed mined areas (as at December 31, 2003) shows a significant positive reconciliation of 36% for ore mined above the Mineral Reserve and a small positive reconciliation in the head grade of 1% above the Mineral Reserve, resulting in a positive reconciliation of 38% in nickel metal produced in comparison with the Mineral Reserve.

The overall positive ore tonnes reconciliation resulted predominantly from production from areas within the Mineral Resource but outside the pre-mining 1998 Mineral Reserve which, as ore block models indicated, were below the economic cut-off grade. This positive reconciliation feature is diminishing with increasing depth, in line with expectations.

Geology

The Emily Ann deposit comprises a series of northerly striking nickel sulfide units which can be broadly divided into two mineralized zones – known as the upper and lower mineralized horizons (UMH and LMH respectively).

The UMH comprises fault associated, disseminated and stringer sulfide ore occurring within a lenticular ultramafic host, dipping steeply to the east and striking grid north. The LMH, which strikes grid northwest and dips shallowly to moderately to the northeast, consists of massive sulfide ore predominantly within felsic host rocks with minor associated ultramafic zones. The convergence of the two horizons resembles a recumbent synformal fold that plunges shallowly to the northeast.

The shallower portion of the mineralization, which plunges to the north (1215mRL, 1185mRL and 1160mRL levels), is associated with ultramafic rocks and comprises variable concentrations of disseminated to matrix sulfide with minor massive sulfide stringer veins.

Lake Johnston Operation, underground mining at Emily Ann nickel mine

Review Of Operations – Lake Johnston, Australia

[illegible] Mineral Resource and Reserve was undertaken during the second half of 2003 utilizing additional data points provided [illegible] and mapping information collected from underground development. In comparison with the Feasibility Study estimate [illegible]

[illegible] was estimated using SURPAC block modeling techniques (based on a 0% nickel cut-off grade) within a geologically defined mineralized envelope, in accordance with the Australian JORC Code, is summarized in the following table:

2003 Mineral Resource (including Mineral Reserves), Emily Ann (with depletion by production as at December 31, 2003)

	Measured Mineral Resource		Indicated Mineral Resource		Total Mineral Resource			Inferred Mineral Resource	
	000 t	Grade (Ni %)	000 t	Grade (Ni %)	000 t	Grade (Ni %)	Contained Metal (t)	000 t	Grade (Ni %)
UMH	335	2.81	166	2.30	501	2.64	13,000	–	–
LMH	362	4.77	326	4.51	688	4.65	32,000	74	2.80
Sub-Total	**697**	**3.83**	**492**	**3.76**	**1,189**	**3.80**	**45,000**	**74**	**2.80**
[illegible] of Toolangi	–	–	–	–	–	–	–	334	4.18
Total 2003 Mineral Resource	**697**	**3.83**	**492**	**3.76**	**1,189**	**3.80**	**45,000**	**408**	**3.93**

[illegible] (which takes into account additional geological information and depletion since commencement of production) is not comparable with the [illegible] the 2002 Annual Report which was the pre-mined 1998 estimate undepleted by mine production.

[illegible]

2003 Mineral Reserves, Emily Ann (with depletion by production as at December 31, 2003)

	Proven Mineral Reserve			Probable Mineral Reserve			Total Mineral Reserve		
	000 t	Grade (Ni %)	Contained Metal (t)	000 t	Grade (Ni %)	Contained Metal (t)	000 t	Grade (Ni %)	Contained Metal (t)
UMH	224	2.31	5,180	56	2.13	1,190	280	2.28	6,370
LMH	294	3.68	10,810	278	3.54	9,850	572	3.61	20,660
Total 2003 Mineral Reserves (@ 1.80% cut-off)	**518**	**3.09**	**15,990**	**334**	**3.31**	**11,040**	**852**	**3.17**	**27,030**
Total 2002 Mineral Reserves [illegible]	–	–	–	1,027	3.41	35,000	1,027	3.41	35,000

A nickel price of US$3.50/lb and an exchange rate of [illegible] have been assumed in estimating the Mineral Reserve.

The above Mineral Resource was estimated by Don Barrett and Roger Mason and verified by Peter Buck (all full-time employees of the LionOre group). The Mineral Reserve [illegible] by Andrew Landon and verified by Glenn Jardine (both full-time employees of the LionOre group). Messrs Barrett, Mason, Buck and Jardine each satisfy the requirements of a Competent Person as defined in the Australian JORC Code and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards [illegible]

[illegible]ge Ha[illegible]s [illegible]e

Mining Operations

Development of the Maggie Hays nickel deposit (located approximately 3 kilometers south of the Emily Ann nickel mine) commenced in January 2003, following the completion of a Feasibility Study which confirmed that an integrated development with Emily Ann would enable nickel production from the Lake Johnston Operation to be increased to 11,000 tonnes per annum in the medium term.

The development scenario adopted in the Maggie Hays Feasibility Study was confined to the lower massive sulfide zone which contains a reserve of 475,000 tonnes at 3.55% nickel and represents approximately 15% of the total nickel resource at Maggie Hays.

Underground development commenced in April 2003, following the completion of a 35-meter deep boxcut. By year end, the main decline had advanced a total of 654 meters with development reaching 1220mRL (130 meters below surface).

Construction of surface infrastructure was completed during the year in line with the feasibility study and included an office complex, workshop, settling ponds and the primary ventilation fan.

Significant delays were experienced during the fourth quarter of 2003 due to large quantities of water flowing into the mine at the decline face, resulting from the intersection of a large water-bearing structure in late September. However, first ore from Maggie Hays is expected to be delivered to the expanded Emily Ann treatment plant in late 2004.

Nickel concentrates from Maggie Hays will be sold to Inco Limited under the life-of-mine off-take agreement negotiated for Emily Ann concentrates.

Geology

The Maggie Hays deposit is partly associated with a regionally extensive body of ultramafic rocks as well as felsic volcanic rocks. The overall deposit is approximately 1.4 kilometers in length and has a maximum down-dip extent of 400 meters.

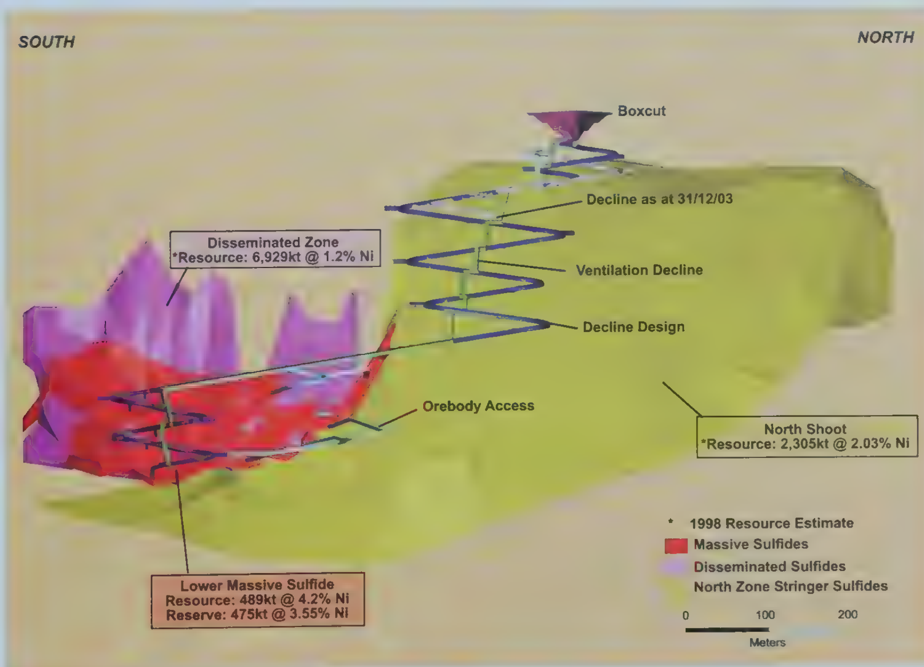
The deposit contains several distinct mineralized domains:

- Main Zone Lower Massive Sulfide (LMS) – which was the focus of the Feasibility Study and basis for development;
- Main Zone, Disseminated Sulfide;
- Maggie Hays North, massive and stringer sulfides;
- Maggie Hays South, disseminated sulfides.

The Main Zone occurs at the base of the ultramafic and consists dominantly of disseminated mineralization up to 40 meters in thickness and is stratigraphically underlain by the subordinate massive sulfide zone, which averages three meters in thickness, hosted by an ultramafic unit.

The Maggie Hays North Zone comprises a broad tabular zone of complex stringer and massive sulfides, which are hosted by felsic volcanics immediately north and along strike of the Main Zone mineralization. The North Zone mineralization is typically between 3 and 9 meters thick and is controlled by a shear zone which dips 60 degrees to the east and terminates the northern continuation of the ultramafic and its associated mineralization.

In addition to these major mineralized zones, localized structurally controlled massive/stringer mineralization, termed the Upper Massive Sulfide zone, occurs close at the northern pinch-out of the ultramafic, up-plunge of the Main Zone mineralization.



Lake Johnston Operation, Maggie Hays deposit showing proposed mine development

Review Of Operations – Lake Johnston, Australia

[illegible]

The resource estimate for the Maggie Hays deposit is summarized in the table below:

2003 Mineral Resource (including Mineral Reserves) Maggie Hays (as at March 31, 1998)

Zone	Indicated Mineral Resource			Inferred Mineral Resource	
	000t	Grade Ni %	Contained Metal (t)	000t	Grade Ni %
Maggie Hays North	2,305	2.03	47,000	193	1.96
Main Zone Disseminated	6,929	1.20	83,000	–	–
Main Zone Massive Sulfide	633	3.79	24,000	–	–
Maggie Hays South	972	0.93	9,000	777	0.89
Total Mineral Resource (@ 0.7% Ni cut-off)	**10,839**	**1.50**	**163,000**	**970**	**1.10**

[illegible] e was estimated by Ray Dudley (a former employee of Devmin Consultants Pty Ltd) and verified by Peter Buck (a full-time employee of the [illegible] satisfy the requirements of a Competent Person as defined in the Australian JORC Code and a Qualified Person as defined in National Instrument [illegible] ure for Mineral Projects).

The base case of the Feasibility Study was predicated on exploitation of only the Lower Massive Sulfide (LMS) reserve as incremental production to [illegible] existing Emily Ann nickel mine.

[illegible] ineral Reserve estimates for the Maggie Hays deposit are summarised in the table below:

Mineral Reserve, Main Massive Sulfide Zone, Maggie Hays (as at December 31, 2002)

Zone	Category	000t	Grade Ni %	Contained Metal (t)
Lower Massive Sulfide	Probable	475	3.55	16,900

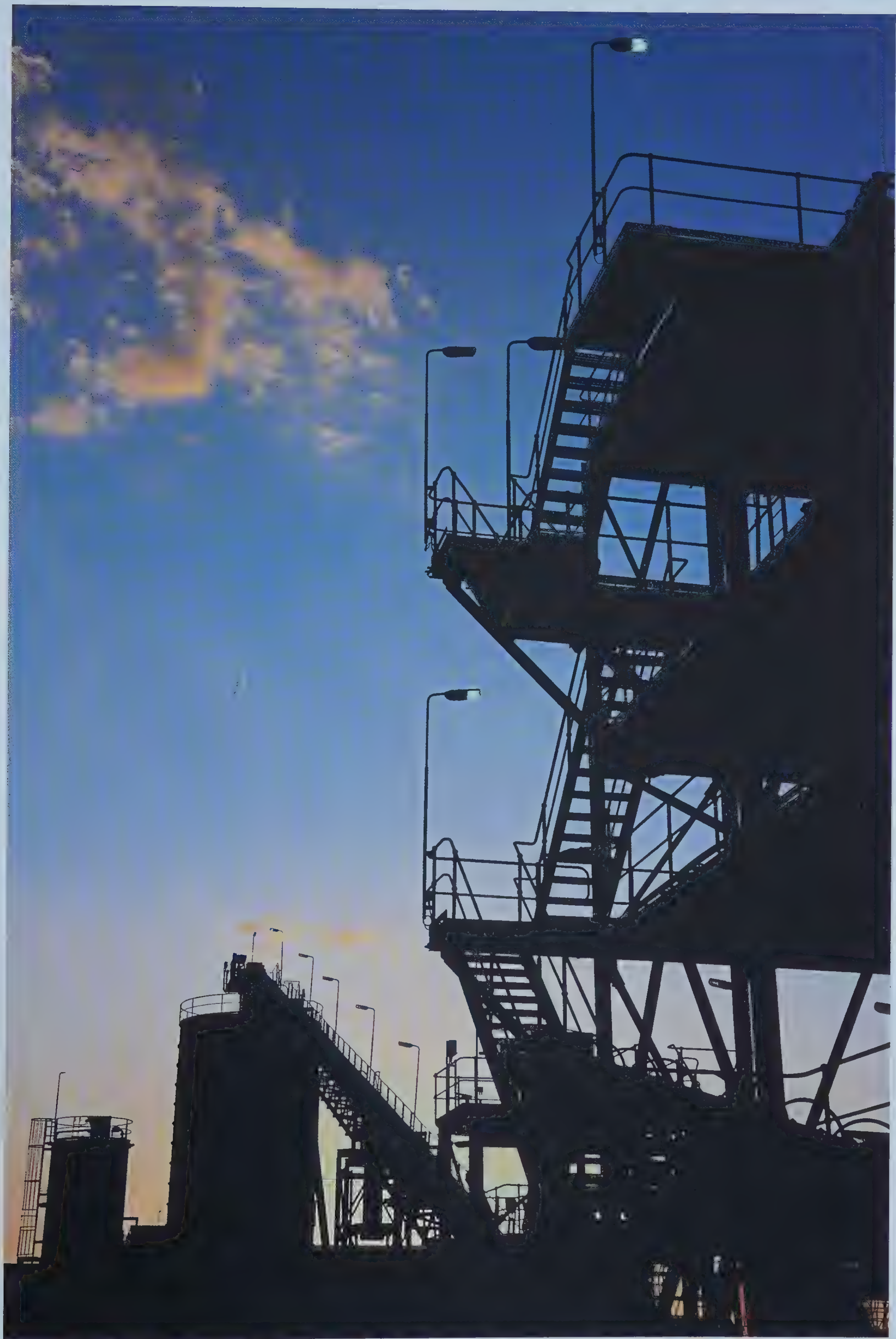
[illegible] ed mine design for the life of mine, production rates, dilution rates, mining grades, metallurgical recoveries, capital and operating costs and a financial [illegible] developed by LionOre in-house and with the use of specialist external consultants where required. This allowed the estimation of a Mineral Reserve verified by [illegible] full time employee of the LionOre group) who satisfies the requirements of a Competent Person as defined in the Australian JORC Code and a Qualified [illegible] ed in National Instrument 43-101 (Standards of Disclosure for Mineral Projects).

The opportunity exists to improve the financial outcome of the Maggie Hays project through the possible exploitation of the:

- Upper Massive Sulfide mineralization (UMS);
- North Zone;
- Main Zone Disseminated Sulfides;
- Additional LMS mineralization.

A Resource definition drilling program designed to test the Upper Massive Sulfide (UMS) zone commenced in late 2003 from underground development. A Resource and subsequent Mineral Reserve estimate for this zone is expected during 2004.

Lake Johnston Operations,
Maggie Hays decline portal



Lake Johnston Operation processing plant

Review Of Operations – Lake Johnston, Australia

…e Johnston and Forrestania …nal Exploration

Introduction

Since March 2003, LionOre's nickel sulfide exploration on the Lake Johnston and Forrestania projects has been funded 100% by Inco Limited to a level of A$15 million over four years in return for the concentrate off-take rights. Exploration recommenced in the Lake Johnston belt surrounding Emily Ann and Maggie Hays after a hiatus in activities over the past six years, during which LionOre progressively acquired 100% ownership of the Emily Ann and Maggie Hays deposits and surrounding exploration tenements.

Lake Johnston Exploration

Exploration comprised a re-evaluation of previous transient electro-magnetic (TEM) geophysical surveys and limited drilling of nickel sulfide prospects immediately north of the Emily Ann nickel mine. Drilling to date confirmed further the broad occurrence of thin (1-2 meter) zones of nickel sulfide mineralization, interpreted to correlate with the upper and lower mineralized horizons at Emily Ann. The best intersection from three holes drilled comprised 2m @ 4.18% Ni from 258.6m in RTD203 (local grid 102 050 North, 100 083 East). The economic potential of the Emily Ann north mineralization will be more fully evaluated in 2004.

Drilling of existing TEM anomalies will proceed during 2004, together with expansion of the TEM survey coverage. As part of this program, known nickel sulfide occurrences located to the north of Emily Ann, will undergo further drill evaluation. In addition, drilling will evaluate a number of previously delineated TEM and geochemical anomalies located elsewhere on the tenements.

Forrestania Nickel Exploration

LionOre now has a 100% interest (2002: 90%) in the nickel rights over approximately 1,000 square kilometers of tenements in the Forrestania greenstone belt, immediately adjacent to ground containing a number of former nickel mines operated by Outokumpu Oy. Notwithstanding that LionOre's tenements cover broad extensions of the nickel prospective stratigraphy, they have not been explored for nickel for more than two decades, having been held by gold-focused companies.

Exploration in 2004 will comprise drilling of numerous untested TEM anomalies throughout the belt, following the approval of the Company's proposed exploration activities by government environmental agencies.

Lake Johnston and Forrestania Projects - Regional Geology and Tenements

Review Of Operations – Northeastern Goldfields, Australia

Review Of Operations – Northeastern Goldfields, Australia

theastern Goldfields (LionOre – 100%)

During 2003 LionOre Australia achieved 100% ownership of the Northeastern Goldfields tenements in Western Australia through a merger with its joint venture partner, Dalrymple Resources NL. Following this transaction, LionOre Australia now controls almost 1,000 square kilometers of strategic landholdings in the region, including 500 square kilometers straddling the Perseverance-Mount Keith nickel sulfide belt and the Yandal gold corridor.

The focus for the Company in this region during 2003 centered on the establishment and consolidation of the Thunderbox gold mine, which completed its first full year of production.

The Thunderbox gold mine is located some 45 kilometers south of the town of Leinster, immediately adjacent to the sealed Leinster-Leonora highway. The operation provides the Company with significant infrastructure from which to further expand its regional mining and exploration activities.

A summary of production statistics can be found on page 60 in the Management's Discussion and Analysis section of this report.

Thunderbox Gold Mine

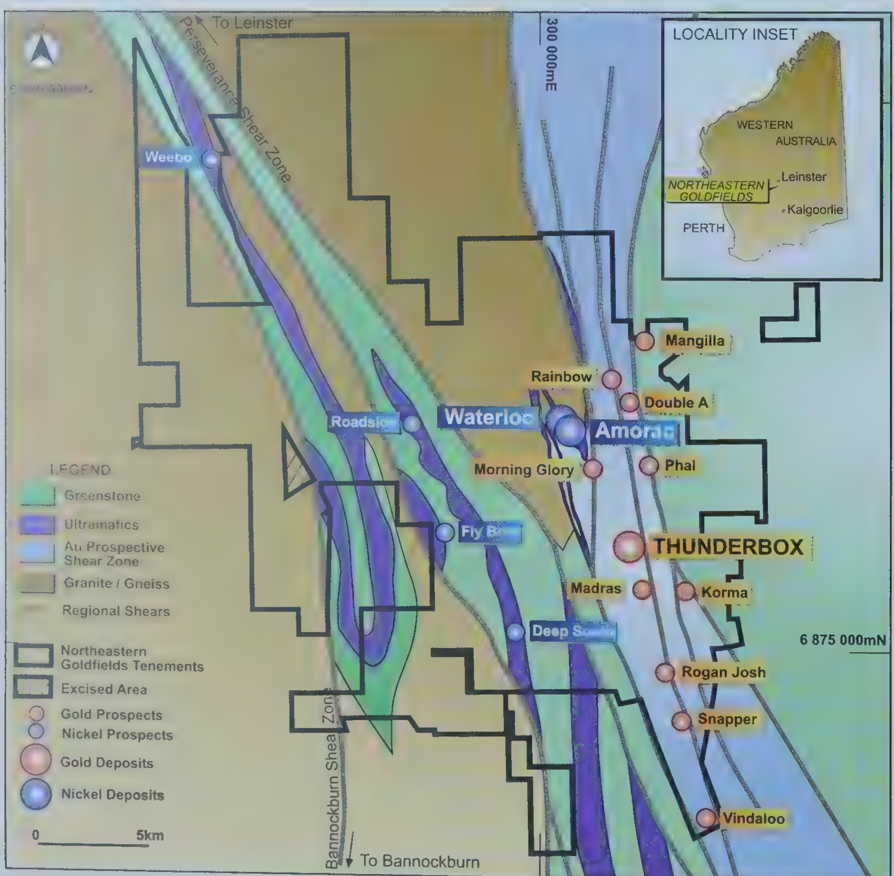
The Thunderbox gold operation comprises a conventional open pit mine feeding a 2.3 million tonne per annum processing facility. The processing facility incorporates single-stage crushing, a SAG mill and a ball mill followed by conventional CIL leaching and elution circuits.

The mine employs approximately 160 personnel and operates on a fly-in, fly-out basis from Perth. A fully serviced village provides on-site accommodation.

Mining Operations

During 2003, a total of 12 million tonnes of material was mined at the Thunderbox gold mine for 2.55 million tonnes of ore at a strip ratio of 3.5:1. Gold production totalled 212,459 ounces at a cash cost of $138 per ounce.

The Thunderbox open pit was designed to be developed in stages, with Stage 1 focussing on the upper horizon oxide zone ore in the Zone C area of the ore body. Stages 2 and 3 were designed to focus on the deeper primary ore of Zone C, while Stage 4 focuses on Zone A of the ore body – to the south and offset from Zone C. At year end, Stage 1 was all but complete with Stages 2 and 3 underway.



Northeastern Goldfields, regional setting

Drill and blast activity progressively increased throughout the year as mining progressed down through the oxide zone, through the transition zone and into primary ore. Approximately 65% of the Thunderbox reserve is interpreted as primary ore and will require drilling & blasting.

At year-end, the Thunderbox open pit was 700 meters long, 500 meters wide and 90 meters deep. The planned pit will ultimately be 260 meters in depth.

Processing Operations

The treatment facilities processed a total of 2.5 million dry tonnes of mainly soft oxide ore at a grade of 2.70 g/t gold during 2003. Recovery averaged 96.6% for the year and a total of 212,459 ounces of gold were produced.

As a result of the changeover from predominantly oxide ore to sulfide ore, the ball mill was commissioned on November 27, 2003 and operated throughout the month of December, its first full month of operations.

Based on actual performance during December, the expectation of the process plant when treating predominantly hard rock (sulfide ore) has been increased from 2 million tonnes per annum, according to the Feasibility Study, to the current 2.3 million tonnes per annum.

Geology

The staged development of the Thunderbox open pit has provided useful insights into the deposit's geology, prior to development of the deeper primary mineralization.

Grade control has been carried out by a combination of angled RC drill holes in the softer, upper oxide zone and blast hole sampling in the deeper primary material. The grade control information continues to confirm the robust nature of the Thunderbox ore body, with Zone C continuing to exhibit maximum true widths of about 80 meters and a continuous strike extent of 400 meters.

During the year, considerable effort was directed at geotechnical management of the open pit. Routine geological mapping, geotechnical field monitoring and laboratory testing were carried out throughout the year, with the information used to re-evaluate the slope design parameters for the open pit on an ongoing basis as mining advances. As a result of this work, the pit wall slope angles were reduced and the dewatering program improved to increase the level of safety with enhanced wall stability in the oxide zone.

As part of the geotechnical work, large-diameter horizontal depressurization holes were established within the pit to assist in dewatering the pit walls. These holes were drilled to maximum lengths of 200 meters and have produced groundwater outflows of 70 tonnes per hour. This water is collected and used for processing operations.

Mineral Resource / Reserve

The 2003 Mineral Resource, which was estimated using SURPAC block modeling techniques, based on a 1.0g/t gold oxide cut-off grade within a geologically defined mineralization envelope and in accordance with the Australian JORC Code, is summarized in the following table:

Mineral Resource (including Mineral Reserves), Thunderbox gold deposit (depleted by production as at December 31, 2003)

	Oxide			Primary			Total Mineral Resources		
	Tonnes	Gold Grade (g/t)	Contained Gold (oz)	Tonnes	Gold Grade (g/t)	Contained Gold (oz)	Tonnes	Gold Grade (g/t)	Contained Gold (oz)
Measured	940,000	2.2	66,000	15,790,000	2.3	1,148,000	16,730,000	2.3	1,214,000
Indicated	380,000	1.8	22,000	5,510,000	2.0	361,000	5,890,000	2.0	383,000
Total	**1,320,000**	**2.1**	**88,000**	**21,300,000**	**2.2**	**1,509,000**	**22,620,000**	**2.2**	**1,597,000**
Inferred	160,000	1.6	8,000	2,740,000	1.8	159,000	2,900,000	1.8	167,000
Total 2002 Measured and Indicated Mineral Resources:									
	3,020,000	2.6	256,000	21,890,000	2.2	1,562,000	24,910,000	2.3	1,818,000

Mineral Reserves, Thunderbox gold deposit (depleted by production as at December 31, 2003)

	Oxide			Primary			Total Mineral Reserves		
	Tonnes	Gold Grade (g/t)	Contained Gold (oz)	Tonnes	Gold Grade (g/t)	Contained Gold (oz)	Tonnes	Gold Grade (g/t)	Contained Gold (oz)
Proven	880,000	1.8	50,000	06,790,000	2.4	521,000	7,670,000	2.3	571,000
Probable	90,000	2.1	6,000	130,000	1.7	7,000	220,000	1.8	13,000
Total	**970,000**	**1.8**	**56,000**	**6,920,000**	**2.4**	**528,000**	**7,890,000**	**2.3**	**584,000**
Total 2002	2,780,000	2.5	225,000	7,780,000	2.4	592,000	10,560,000	2.4	817,000

The 2003 Mineral Reserve for the Thunderbox deposit is based on cut-off grades of 0.7g/t gold for oxide ore and 1.1 g/t gold for primary ore.

A gold price of US$270/oz and an exchange rate of US$/A$ of 0.60 have been assumed in estimating the Mineral Reserve as adopted in the 2001 Bankable Feasibility Study.

The above Mineral Resource was estimated by Andy Thompson and verified by Roger Mason and Peter Buck (all full-time employees of the LionOre group). The Mineral Reserve was estimated by Jeff Eager and verified by Randell Ford and Blair Duncan (all full-time employees of the LionOre group). Messrs Mason, Eager, Ford, Duncan and Buck each satisfy the requirements of a Competent Person as defined in the Australian JORC Code and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects).

Review Of Operations – Northeastern Goldfields, Australia

Goldfields, exploration drilling

Gold Exploration

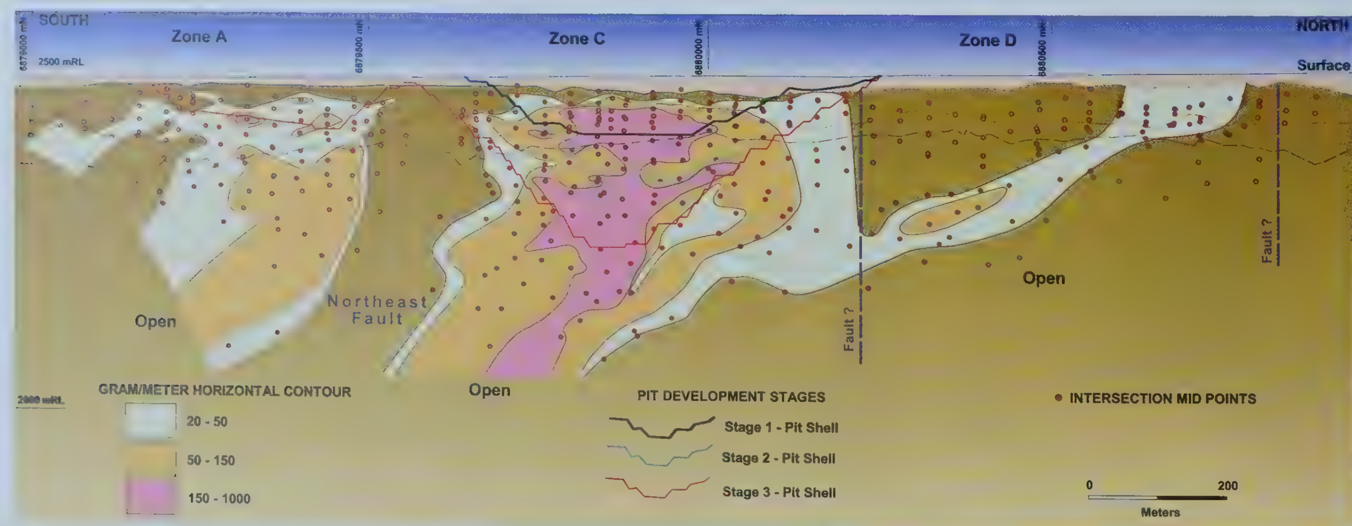
Introduction

Gold exploration during 2003 primarily focused on near mine opportunities, with the bulk of the program devoted to extensional drilling of the Thunderbox deposit. Systematic diamond drilling recommenced, for the first time since the drillout of the deposit in 2000, with the aim of defining additional resources amenable to open pit, bulk underground or selective underground mining methods.

Thunderbox Extensional Drilling

Drilling throughout 2003 succeeded in its objectives of better defining the known resources below the base of the planned open pit, defining additional primary mineralization in Zone D, and identifying a discrete series of sub-parallel, higher grade zones located within the broader Zone C envelope of mineralization with the potential to sustain underground selective mining. In addition to this, drilling to a vertical depth of 400 meters beneath Zone C confirmed the deposit continues at depth beyond the known resource, and remains open beyond that point.

On Zone C, eleven diamond holes were drilled to test within and beyond the limits of the known resource, below the base of the planned pit, some 250 meters below surface, to a vertical depth of 400 meters. These holes confirmed that the Zone C sector of the deposit continues to plunge to the south at depth, attaining true widths of up to 60 meters over a strike length of 300 meters. Key intersections from the central core of this zone include:



stern Goldfields, Thunderbox longitudinal section showing open pit stages, drill hole pierce points and deposit boundaries

Hole No.	Northing	Easting	Azimuth	From Depth	Downhole Width	Grade g/t Au
Zone A						
TBDD 5	6879280	303934.1	090	494.79	15.54	2.59
TBDD 8	6879360	303900	090	496.00	8.08	2.55
Zone C						
TBDD 9	6879860	304004.5	090	326.00	98.74	2.66
including				378.00	46.74	3.83
				379.00	7.65	6.78
				403.58	10.92	4.50
TBDD17	6879840	304009.3	090	336.00	52.18	3.35
including				342.00	5.20	4.80
				350.78	5.22	4.47
				364.00	8.50	6.12
TBDD26				394.00	90.67	2.73
including	6879760	304000.2	090	418.00	5.61	5.62
				447.00	9.00	5.14
				472.00	7.22	6.30

On Zone A, two holes (TBDD5 and TBDD8) were drilled some 100 meters and 200 meters down dip of the previous deepest drillholes and intersected the downdip continuation of the mineralization where predicted.

Drilling on Zone D discovered a new zone of primary mineralization some 200 meters in length, 100 meters in vertical extent, and up to 30 meters in true width. This zone plunges gently south from a vertical depth of 150 meters, some 60 meters below the base of oxidation. The discovery of this zone highlights the potential for additional mineralized positions in the vicinity of the Thunderbox deposit, which may be relatively close to surface but largely invisible to RAB drilling. Key intersections from 40 meters spaced sections through the central core of this zone include:

Hole No.	Northing	Easting	Azimuth	From Depth	Downhole Width	Grade g/t Au
Zone D						
TBDD13	6880397	303975	090	194.54	56.26	2.38
including				229.00	5.10	5.77
				247.71	3.09	4.40
TBDD35	6880320	303982.2	090	229.78	41.22	4.20
including				234.00	6.00	6.04
				243.00	7.00	8.94
				253.00	11.00	4.67
TBDD36	6880365	303980.6	090	205.00	48.00	3.11
including				221.00	10.00	8.55

Review Of Operations – Northeastern Goldfields, Australia

Regional Gold Exploration

Gold exploration continued on tenements spanning the prospective Thunderbox corridor with the dual aims of defining additional oxide mineralization to supplement future mill feed and delineate evidence for deeper primary mineralization.

Reconnaissance RAB aircore and RC percussion drilling on 200-400 meters spaced traverses along the Thunderbox shear zone and other parallel structures continued to identify additional zones of gold anomalism which require follow up. This is exemplified by the intersection of 21m @ 1.69g/t Au in aircore hole LWCA253, some 8 kilometers south of Thunderbox. Follow-up drilling is scheduled to commence in 2004.

Modest oxide resources have been identified at four separate prospects within a 12 kilometer distance of the processing plant. These prospects, known as Vindaloo, Rogan Josh (Wilson Creek JV, LionOre 70%), Mangilla (Lehmans Well JV, LionOre 90%), and Rainbow (Wildara JV, LionOre 100%), will be subject to more detailed evaluation in the near future.

A detailed gravity survey carried out along the Thunderbox shear zone has identified several areas which may represent flexures or porphyry bodies within the shear zone. These are considered prime targets for future drilling, and will be tested during 2004.

Joint venture negotiations are also in progress to gain access to further gold prospective ground within reasonable trucking distance of the Thunderbox plant.

Northeastern Goldfields, exploration team inspecting drill core

Nickel Exploration

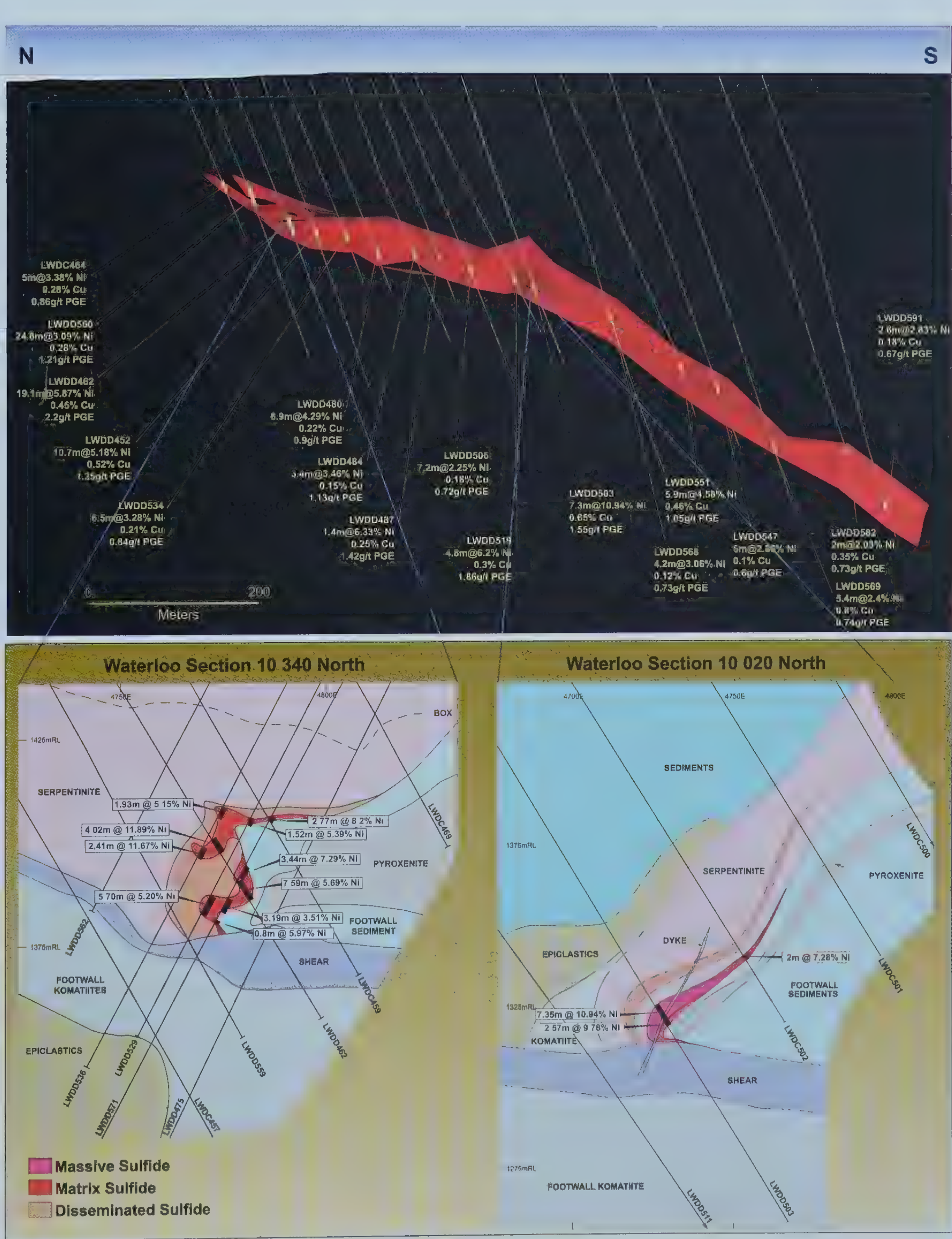
Waterloo Nickel Deposit

The Waterloo nickel deposit, discovered and delineated in 2002, is situated only 5 kilometers northwest of Thunderbox on a granted mining lease, within 1 kilometer of the sealed Goldfields Highway.

Following the completion of preliminary resource drilling in early 2003, the Waterloo deposit is currently undergoing final metallurgical testwork and detailed geotechnical drilling programs as part of a pre-feasibility study. This study is based solely on the Waterloo deposit and does not include the nearby Amorac deposit, which could potentially be accessed by any future development of Waterloo.

Studies are also underway on Waterloo to consider options facilitating the future underground development of the deposit. In view of the complexity of the deposit, particular consideration is being given to undertaking an initial phase of underground exploration development to clarify the characteristics of the deposit and determine the most appropriate mining strategy. Given the high tenor of the mineralization (5%-8% Ni) and the high nickel price, ore produced from this process could be transported to Emily Ann for processing.

A single exploration hole (LWDD707) was drilled some 110 meters south of previous drilling at Waterloo. This hole intersected 0.4 meters @ 8.82% Ni, 0.25% Cu and 1.53g/t combined platinum group metals in matrix sulfides at the base of the Waterloo ultramafic, confirming that mineralization remains open down- plunge.



Northeastern Goldfields,
Waterloo nickel deposit 3D perspective and cross sections

Review Of Operations – Northeastern Goldfields, Australia

Regional Nickel Exploration

Regional nickel exploration continued to focus on the area surrounding Waterloo, which also contains the Amorac deposit located some 300 meters to the east. Amorac comprises shear zone-hosted remobilized massive and stringer sulfides hosted by a sequence of sedimentary and mafic volcanic rocks. The Amorac sulfides appear to have been detached or remobilized from their parent ultramafic hostrock, and much of the exploration undertaken during 2003 was directed at locating additional pods and searching for the source of these sulfides.

Drilling succeeded in extending the southern plunge extent of Amorac and in identifying subsidiary sulfide zones in the vicinity of the deposit. To the south, LWDD658 intersected 0.8 meters @ 6% Ni of remobilized massive sulfide some 80 meters south of existing drilling. The presence of additional shear zone-hosted mineralization between the Amorac and Waterloo deposits, and east of Amorac was confirmed by several intersections shown in the table below.

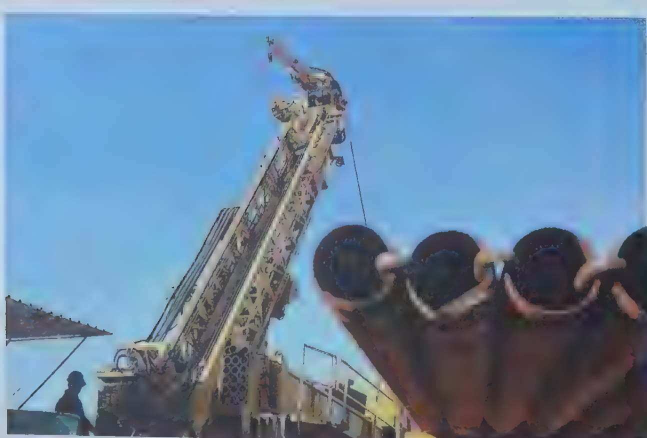
Hole No.	Northing	Easting	Azimuth	From Depth	Downhole Width	Grade Ni %
LWDD678	6884314	301475.9	090	537.80	3.20	2.40
LWDD682	6884447	301492.3	090	533.81	1.60	4.00
LWDD716	6884308	301820.1	090	534.001	1.40	2.68

Detailed geological mapping to the east of Amorac located several new gossan occurrences whose geochemical signatures are consistent with nickel sulfide sources. The best rockchip sample assayed 1130ppm Ni, 588ppm Cu and 521ppb Pt.

Elsewhere, reconnaissance drilling and transient electromagnetic (TEM) geophysical surveys carried out on the Yillaree Joint Venture (LionOre - %) identified similar ultramafic rocks to those associated with WMC's Weebo disseminated nickel sulfide resource situated some 7 kilometers along strike. Numerous anomalies were defined for follow up.

During 2004, regional nickel exploration will comprise drill testing of the remaining TEM anomalies in the Waterloo locality. Also, the surface TEM coverage will be expanded to cover the remaining 80% of the prospective ultramafic stratigraphy elsewhere on the project tenements.

LionOre's Spatial Data Administration team



Northeastern Goldfields, exploration drilling

Review Of Operations – Exploration, Australia

Review Of Operations – Exploration, Australia

Northeastern - Eastern Goldfields, project locations

Introduction

The merger of Dalrymple Resources with LionOre in late 2003 resulted in the addition of several new nickel and gold projects in the Eastern and Northeastern Goldfields between Kalgoorlie and Leinster in Western Australia. The key new projects are described below:

Scotia-Goongarrie Project

The Scotia-Goongarrie project covers 45 strike kilometers of nickel prospective ultramafic stratigraphy and gold prospective shear zones in the Bardoc Tectonic Zone, commencing some 40 kilometers north of Kalgoorlie. The tenements encompass the former Scotia nickel mine and are immediately adjacent to Placer Dome's one million ounce Aphrodite gold deposit. Previous exploration within the project area has identified significant gold and nickel prospects, such as the St Patrick's nickel prospect and the Chameleon gold prospect.

The St Patrick's nickel prospect is situated 15 kilometers north along strike of the Scotia nickel deposit and comprises multiple nickel sulfide shoots concealed beneath the transported sedimentary cover of Lake Goongarrie. Previous drill intersections are shown in the table below.

Hole No.	Northing	Easting	Azimuth	From Depth	Downhole Width	Grade Ni %
GG23	6673100	329300	090	194.00	2.80	5.00
GG54	6673100	329180	090	194.00	3.20	5.20

The Chameleon gold prospect occurs on the contact between porphyry and ultramafic rocks. Previous drill intersections at the Chameleon gold prospect are tabulated below. Further drilling is warranted.

Hole No.	Northing	Easting	Azimuth	From Depth	Downhole Width	Grade g/t Au
GG68	6663227	329700	090	50.00	32.00	3.78
GG390	6663040	329740	090	150.00	22.00	5.43

This ground is considered highly prospective for both gold and nickel and exploration on the projects by LionOre will commence in 2004.

Kookynie-Melita Project

The Kookynie-Melita project is centred around the historic gold mining centre of Kookynie, some 40 kilometers south east of the gold mining town of Leonora. This project is at a very early stage and will be subject to reconnaissance drilling during 2004.

Mt Clifford Project

The Mt Clifford project covers highly prospective yet poorly explored ultramafic stratigraphy immediately south of LionOre's Wildara project. The tenements surround WMC's Marriots nickel sulfide deposit which comprises a resource of 500,000t @ 1.8%Ni. Previous exploration has been geographically restricted and variably effective. Several TEM anomalies have been identified and require follow-up drill testing.

LionOre exploration team inspecting drill core

Review Of Operations – Exploration, Australia

Kimberley Joint Venture
arning – 60%)

Late in 2003, LionOre entered into a strategic agreement with Thunderlarra Exploration Ltd, a mineral exploration company listed on the Australian Stock Exchange (ASX:THX). Under the agreement LionOre will be required to fund a minimum of A$5.0 million of exploration on Thundelarra's tenement holding, to earn a 60% interest in those tenements (a total of 2,800 square kilometers) in the East Kimberley region of Western Australia.

Part of LionOre's exploration team, strategy planning, Perth office

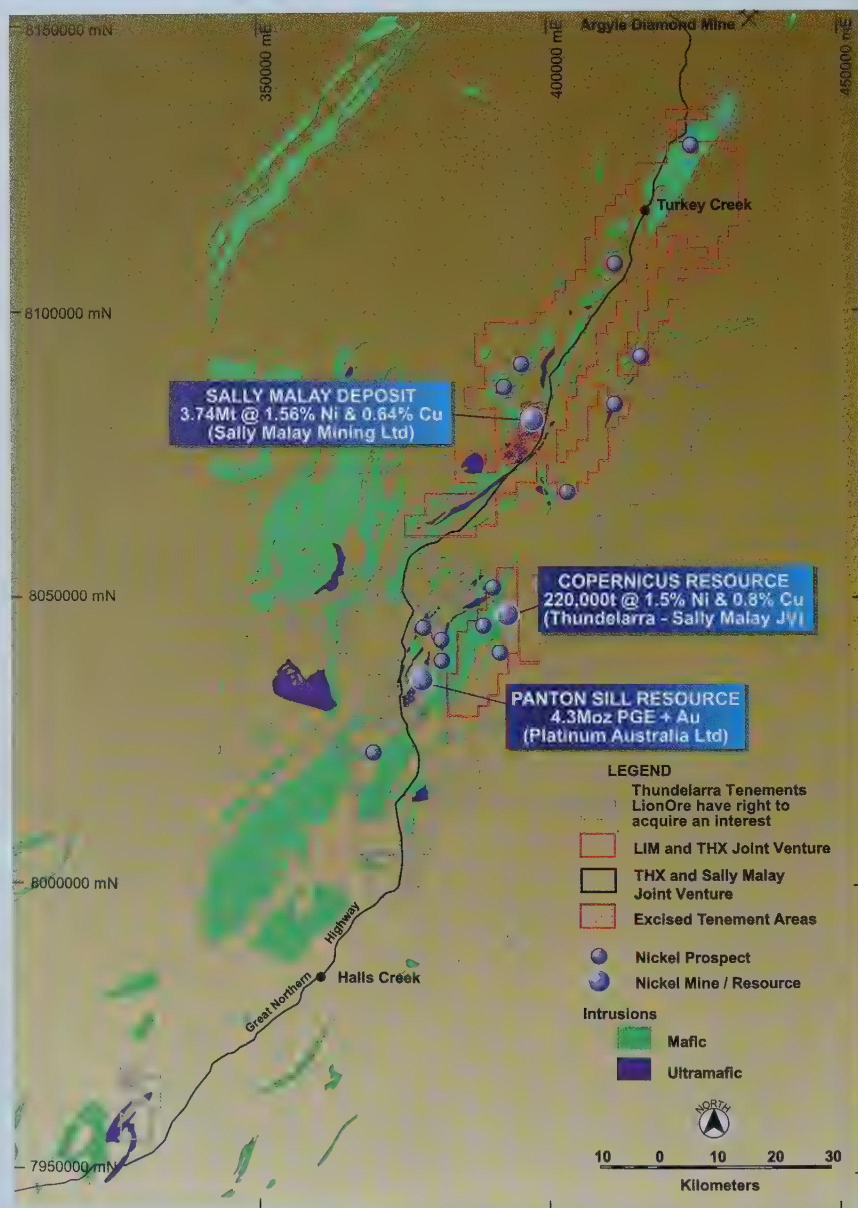
As part of the agreement, LionOre purchased 7,800,000 Thundelarra shares for A$3.5 million (A$0.45 per share), and was granted 11,000,000 options to purchase Thundelarra shares, exercisable at A$0.68 per share, any time up to four years from the date of the grant.

This project is strategically situated in the Proterozoic Halls Creek Orogen between the town of Halls Creek and the Argyle diamond mine, straddling the sealed Highway One and having access to the deep water port of Wyndham. The tenements surround the new Sally Malay nickel mine, and the four million ounce Panton Sill platinum group metal (PGM) resource, and are considered highly prospective for layered mafic and ultramafic intrusion-associated nickel-copper-PGM deposits such as those found at Voisey's Bay and Jinchuan.

In addition to the Sally Malay deposit, there are numerous Ni-Cu-PGM occurrences which testify to the prospectivity of the belt. These include the Copernicus resource currently being delineated by Sally Malay Mining with previous drill intersections of up to 116 meters @ 0.9% Cu, 0.3% Ni and 0.9g/t PGMs and open along strike and at depth, numerous untested TEM anomalies and over one hundred untested Ni-Cu-PGM occurrences.

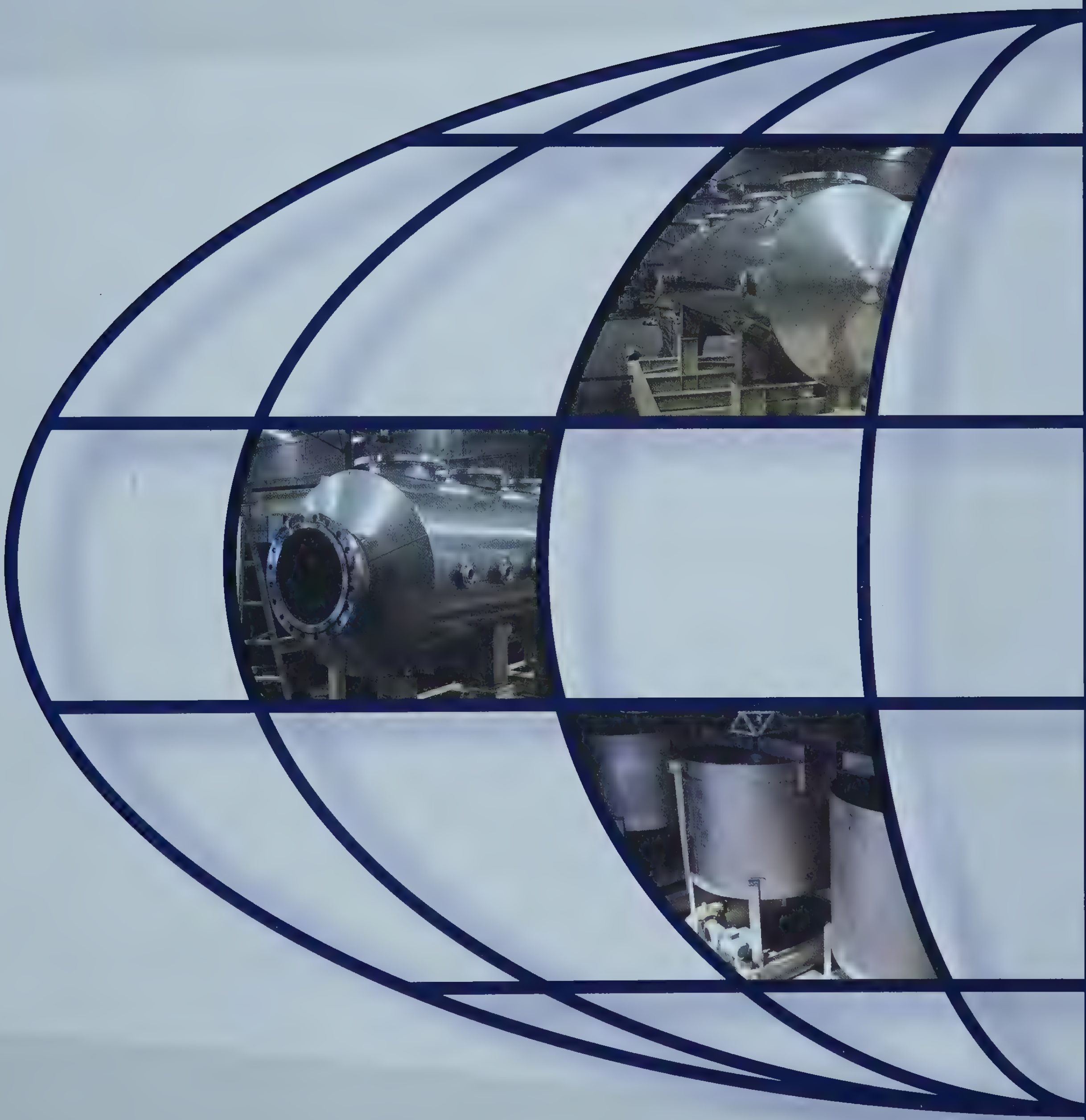
Despite such indications of mineralization, the area is surprisingly poorly explored, with most previous exploration being very restricted. Unfortunately, there has been no recent systematic exploration in the belt for layered mafic—ultramafic hosted Ni-Cu-PGM deposits.

A significant exploration program is planned for 2004.



East Kimberley Joint Venture, project location and geology

Review Of Operations – Hydrometallurgical Technology



Review Of Operations – Hydrometallurgical Technology

Western Minerals Technology Pty Ltd (WMT) was formed in 1998 as a specialist developer of hydrometallurgical technology with a major focus on commercializing its Activox® process.

LionOre is the owner of 80% of WMT, with the remaining 20% held by Aqueous Metallurgy Pty Ltd, a company controlled by Gary Johnson who serves as General Manager of WMT. LionOre has an option to acquire Aqueous's 20% of WMT.

Activox® is a medium-temperature, medium pressure process for the oxidation of sulfide minerals that utilizes a combination of fine grinding followed by pressure oxidation under mild conditions.

2003 marked a number of significant advancements in the development of the Activox® technology. A major program of work was undertaken at the WMT facilities in Perth, including laboratory testing, and extensive pilot plant operations for Inco's Voisey's Bay project. This work will continue in 2004.

In April 2003, WMT was commissioned to undertake the design and construction of an Activox® demonstration plant to operate on site at the Company's Tati Nickel operations in Botswana. The plant was designed and built by a specialist WMT team at the Company's facility in Perth, Western Australia and, at the time of this report, had been delivered to Botswana and was in the process of being assembled.

The plant is scheduled for commissioning in the second quarter of 2004 and will operate through the year. (Further details can be found on page 11 of this Report)

At a scale-up factor of 1:170, this facility will also provide valuable information in respect of optimizing and testing the construction materials required for the design of the full-scale plant, thus greatly reducing the technical risk of installing the plant in Botswana or elsewhere in the world.

WMT has also continued to provide consulting and testing services to a range of clients, including LionOre's development projects. This work has included flotation testwork on the Waterloo nickel deposit and environmental testing for the Thunderbox gold mine.

Activox® demonstration plant, flash cooling vessels

Activox® demonstration plant, fine-grinding mills, under construction

Activox® demonstration plant, autoclave under construction

Review Of Operations – Health, Safety, Environment and Community Relations

Health, Safety, Environment And Community Relations

Health and Safety

LionOre's commitment to health, safety and the environment (HS&E) continued in 2003 with a review of existing policies, examination of their underlying philosophy and the development of new visions for each area.

A number of key initiatives were established during the year to enhance the Company's commitment to HS&E. The introduction of LionOre's HS&E Team Leaders quarterly forum has provided an opportunity for site based and corporate HS&E personnel to meet, share ideas and discuss results of strategic plans.

A Healthy Lifestyle Program was introduced across the Company to promote a future of long-term health for all personnel. During 2003, both the sports centre and swimming pool at the Lake Johnston Operation opened to complement and promote the healthy lifestyle program.

In Botswana, Tati Nickel won both the Botswana Inter-mine Safety Competition and the Botswana Inter-mine Severity-Rate Competition for 2003.

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In Australia, the Mine Rescue team at the Lake Johnston Operation participated in the underground mine rescue competition in Kalgoorlie, winning a first place in individual theory, team theory, and second in team relay.

HIV/AIDS Intervention

In anticipation of the potential future impact of HIV/AIDS, a comprehensive Intervention Strategy was implemented in 2001 by Tati Nickel. The objective of this initiative is to maintain the status of HIV-negative employees and extend the life and quality of life of HIV-positive employees. A comprehensive discussion of this HIV/AIDS Intervention Strategy is set out on page 80 of this Report in the Management's Discussion And Analysis section under the heading "Risks In Dealing With HIV/AIDS".

LionOre's Mine Rescue Team conducting an exercise at Lake Johnston Operation

Environment

Following the Company's success in 2002 as the recipient of the Golden Gecko Award for Environmental Excellence, in October 2003, LionOre received the prestigious Western Australian Environment Award for Corporate/Business Leading by Example. This award, presented by the Minister for Environment on behalf of the Western Australian Government, recognized LionOre's outstanding commitment to protecting the environment.

LionOre considers the relationship between its activities and the environment at all stages of its operations. The Company acknowledges that the long term viability of its business depends on continuous improvement of its environmental management programs.

LionOre Staff Receive the 2003 WA Environment Award for Corporate Business Leading by Example

Recycling Bays at Lake Johnston Operation Accommodation Village

LionOre's staff and families participating in HS&E weekend workshop

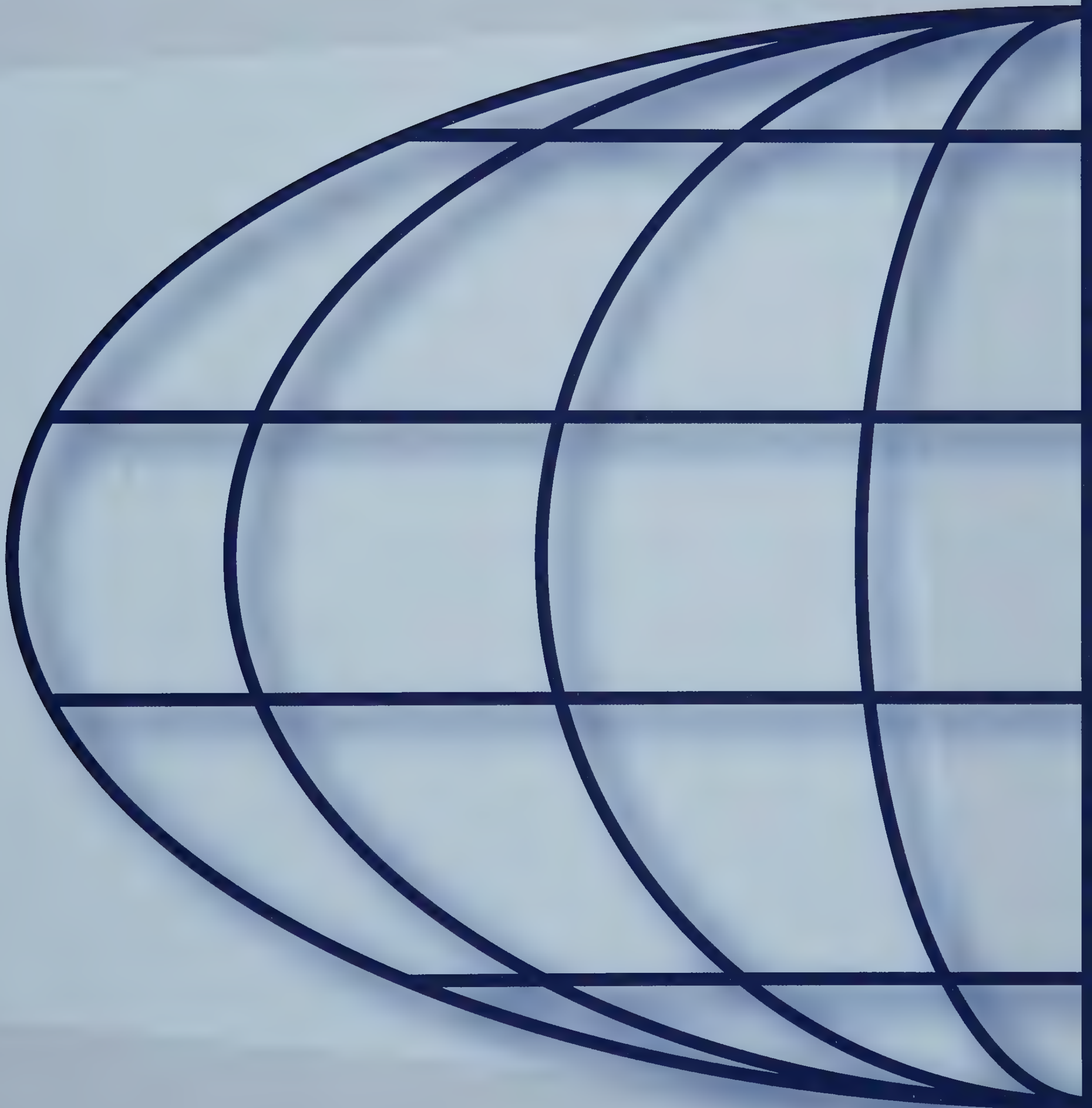
Community Relations

Throughout the year, LionOre continued to further its relationships with the local communities in which it operates. Indigenous cultural awareness programs were conducted at all Australian sites.

The Thunderbox gold mine established several economic opportunities for its indigenous communities. These included contracts to collect seeds for rehabilitation, security fencing for the salvage yard and the construction of a native food and medicine garden on site.

Indigenous Food Garden at the Thunderbox Gold Project Airstrip

Schedule of LionOre Tenement Interests



SCHEDULE OF LIONORE TENEMENT INTERESTS

Lake Johnston Operation – Australia

Emily Ann Project

Tenement	Status	Equity
M 63/0283	G	100%
M 63/0284	G	100%
GPL 63/0004	G	100%
L 63/0051	G	100%
L 63/0052	G	100%
L 63/0055	G	100%

Maggie Hays Project

Tenement	Status	Equity
M 63/0163	G	100%

Lake Johnston Regional

Tenement	Status	Equity
E 63/0296	G	100%
E 63/0297	G	100%
E 63/0318	G	100%
E 63/0349	G	100%
E 63/0362	G	100%
E 63/0426	G	100%
E 63/0427	G	100%
E 63/0428	G	100%
E 63/0429	G	100%
E 63/0430	G	100%
E 63/0431	G	100%
E 63/0432	G	100%
E 63/0471	G	100%
E 63/0542	G	100%
E 63/0547	G	100%
E 63/0735	G	100%
E 63/0778	G	100%
E 63/0779	G	100%
M 63/0282	G	100%
M 63/0292	G	100%
M 63/0302	G	100%
P 63/1213	G	100%
E 63/0837	G	100%
E 63/0585	A	100%
E 63/0838	A	100%
E 63/0857	A	100%
M 63/0293	A	100%
M 63/0294	A	100%
M 63/0426	A	100%
M 63/0427	A	100%
M 63/0428	A	100%
M 63/0434	A	100%
M 63/0435	A	100%
M 63/0436	A	100%
M 63/0437	A	100%
M 63/0438	A	100%
M 63/0439	A	100%
M 63/0440	A	100%
M 63/0441	A	100%
M 63/0442	A	100%
M 63/0443	A	100%
M 63/0455	A	100%
M 63/0456	A	100%
M 63/0457	A	100%
M 63/0458	A	100%
M 63/0459	A	100%
M 63/0460	A	100%
M 63/0461	A	100%
M 63/0462	A	100%
M 63/0463	A	100%
M 63/0464	A	100%
M 63/0465	A	100%
M 63/0466	A	100%
M 63/0467	A	100%
M 63/0468	A	100%
M 63/0497	A	100%
M 63/0498	A	100%
M 63/0499	A	100%
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M 63/0502	A	100%
M 63/0503	A	100%
M 63/0504	A	100%
M 63/0505	A	100%
M 63/0506	A	100%
M 63/0507	A	100%
M 63/0508	A	100%
M 63/0509	A	100%
M 63/0510	A	100%
M 63/0520	A	100%
M 63/0521	A	100%
M 63/0522	A	100%
M 63/0523	A	100%
M 63/0524	A	100%
M 63/0539	A	100%

Maggie Hays South[1]

Tenement	Status	Equity
E 63/0625	G	EI

Medcalf[2]

Tenement	Status	Equity
E 63/0801	G	EI

Northeastern Goldfields Operations – Australia

Wildara

Tenement		Status	Equity
E	36/235	G	100%
E	36/358	G	100%
L	36/155	G	100%
L	36/157	G	100%
L	36/158	G	100%
M	36/473	G	100%
M	36/474	G	100%
M	36/475	G	100%
M	36/476	G	100%
M	36/502	G	100%
M	36/503	G	100%
M	36/504	G	100%
M	36/512	G	100%
M	36/516	G	100%
M	36/524	G	100%
M	36/526	G	100%
M	36/541	G	100%
M	36/542	G	100%
M	36/547	G	100%
M	36/548	G	100%
M	36/599	G	100%
M	36/600	G	100%
M	36/604	G	100%
M	37/771	G	100%
M	37/772	G	100%
M	37/877	G	100%
M	37/878	G	100%
P	36/1338	G	100%
P	36/1472	G	100%
P	36/1473	G	100%
P	37/6412	G	100%
P	37/6558	G	100%
E	36/478	A	100%
E	36/516	A	100%
E	37/611	A	100%
E	37/755	A	100%
E	37/768	A	100%
P	36/1512	A	100%

Lehman's Well[3]

Tenement		Status	Equity
M	36/35	G	90%
M	36/421	G	90%
M	36/462	G	90%
M	36/494	G	90%
M	36/513	G	90%
M	36/525	G	90%
M	36/527	G	90%
M	36/584	G	90%
M	36/585	G	90%
M	36/586	G	90%
M	36/587	G	90%
M	36/588	G	90%
M	36/589	G	90%
P	36/1436	G	90%
P	36/1439	G	90%
P	36/1440	G	90%

Wilson Creek[4]

Tenement		Status	Equity
E	36/306	G	70%
M	37/437	G	70%
M	37/493	G	70%
M	37/494	G	70%
M	36/582	A	70%
M	37/998	A	70%

Yillaree[5]

Tenement		Status	Equity
E	36/245	G	80%
E	36/273	G	80%
M	36/505	G	80%
M	36/506	G	80%
M	36/507	G	80%
M	36/511	G	80%
P	36/1339	G	80%
P	36/1340	G	80%
P	36/1341	G	80%

Spider Well[6]

Tenement		Status	Equity
M	36/427	G	EI
M	36/428	G	EI
M	36/429	G	EI
M	36/466	G	EI
M	36/521	G	EI

SCHEDULE OF LIONORE TENEMENT INTERESTS

Northeastern Goldfields Operations – Australia (continued)

Goongarrie-Scotia

Tenement		Status	Equity
E	29/144	G	100%
E	29/162	G	100%
E	29/170	G	100%
E	29/522	G	100%
M	24/279	G	100%
M	24/336	G	100%
E	24/123	A	100%
E	29/523	A	100%
E	29/529	A	100%
M	29/244	A	100%
M	29/245	A	100%
M	29/246	A	100%
M	29/250	A	100%
M	29/259	A	100%
M	29/260	A	100%
M	29/261	A	100%
M	29/262	A	100%
M	29/305	A	100%
M	29/306	A	100%
M	29/307	A	100%
M	29/308	A	100%
M	29/315	A	100%
M	29/316	A	100%
M	29/317	A	100%
M	29/318	A	100%
P	24/3784	A	100%

Mt Clifford

Tenement		Status	Equity
E	37/228	G	100%
E	37/267	G	100%
E	37/309	G	100%
P	37/5088	G	100%
P	37/5089	G	100%
P	37/5090	G	100%
P	37/5224	G	100%
P	37/5272	G	100%
P	37/5439	G	100%
P	37/5440	G	100%
P	37/5441	G	100%
P	37/5442	G	100%
P	37/6452	G	100%
E	37/761	A	100%
E	37/762	A	100%
M	37/1019	A	100%
M	37/1021	A	100%
M	37/1024	A	100%
M	37/1028	A	100%
M	37/1092	A	100%
M	37/1109	A	100%
M	37/1110	A	100%
M	37/1111	A	100%
M	37/1112	A	100%
M	37/616	A	100%
M	37/806	A	100%
M	37/810	A	100%
M	37/811	A	100%
M	37/812	A	100%
M	37/813	A	100%
M	37/814	A	100%
M	37/815	A	100%
M	37/930	A	100%

Ulysses[7]

Tenement		Status	Equity
M	40/166	G	40%

Kookynie – Melita

Tenement		Status	Equity
E	40/177	G	100%
E	40/46	G	100%
P	40/1089	G	100%
P	40/1090	G	100%
P	40/1093	G	100%
P	40/1094	G	100%
E	37/628	A	100%
E	40/120	A	100%
E	40/131	A	100%
E	40/146	A	100%
E	40/162	A	100%
E	40/165	A	100%
E	40/173	A	100%
E	40/179	A	100%
E	40/196	A	100%
E	40/201	A	100%
M	40/224	A	100%
M	40/233	A	100%
M	40/234	A	100%
M	40/235	A	100%
M	40/236	A	100%
M	40/298	A	100%
M	40/299	A	100%

SCHEDULE OF LIONORE TENEMENT INTERESTS

Northeastern Goldfields Operations – Australia (continued)

Yunndaga – Golden State[8]

Tenement		Status	Equity
P	29/1344	G	12.5%
P	29/1354	G	12.5%
P	29/1355	G	12.5%
P	29/1356	G	12.5%
P	29/1357	G	12.5%
P	29/1358	G	12.5%
P	29/1359	G	12.5%
P	29/1360	G	12.5%
P	29/1361	G	12.5%
M	29/203	A	12.5%
M	29/210	A	12.5%

Yunndaga – Heron[9]

Tenement		Status	Equity
P	29/1362	G	12.5%
P	29/1363	G	12.5%
P	29/1364	G	12.5%
P	29/1365	G	12.5%
P	29/1366	G	12.5%
P	29/1367	G	12.5%
P	29/1368	G	12.5%
P	29/1369	G	12.5%
M	29/209	A	12.5%

Gidgee

Tenement		Status	Equity
E	57/484	A	100%
M	57/293	A	100%
M	57/294	A	100%

Misc Murchison

Tenement		Status	Equity
E	51/859	A	100%
M	20/334	A	100%

Misc NE Goldfields

Tenement		Status	Equity
E	31/336	G	100%
E	36/467	G	100%
E	37/575	G	100%
E	37/580	G	100%
E	37/672	G	100%
E	37/744	G	100%
E	36/495	A	100%
E	36/497	A	100%
E	37/673	A	100%
E	37/715	A	100%
E	37/717	A	100%
E	37/733	A	100%
E	37/738	A	100%
E	37/741	A	100%
E	37/752	A	100%
P	36/1510	A	100%
P	36/1511	A	100%

Ajava[10]

Tenement		Status	Equity
P	24/3193	G	26%
P	24/3194	G	26%
M	24/662	A	26%

East Kimberley Region – Australia

East Kimberley[11]

Tenement		Status	Equity
E	80/2607	G	EI
E	80/2634	G	EI
E	80/2635	G	EI
E	80/2716	G	EI
E	80/2746	G	EI
E	80/2748	G	EI
E	80/2749	G	EI
E	80/2817	G	EI
E	80/2824	G	EI
E	80/2827	G	EI
E	80/2835	G	EI
E	80/2836	G	EI
E	80/2865	G	EI
E	80/2866	G	EI
E	80/2867	G	EI
P	80/1426	G	EI
P	80/1427	G	EI
P	80/1506	G	EI
E	80/3276	A	EI
E	80/3323	A	EI
E	80/3293	A	EI
E	80/3294	A	EI
P	80/1519	A	EI

SCHEDULE OF LIONORE TENEMENT INTERESTS

Forrestania Region – Australia

Forrestania – All Minerals

Tenement		Status	Equity
E	77/0372	G	100%
E	77/0413	G	100%
E	77/0479	G	100%
E	77/0635	G	100%
E	77/0636	G	100%
E	77/0735	G	100%
M	77/0326	G	100%
M	77/0464	G	100%
M	77/0467	G	100%
P	74/0181	G	100%
M	74/0109	A	100%
M	77/0885	A	100%
M	77/0925	A	100%
M	77/0926	A	100%
M	77/0986	A	100%
M	77/1019	A	100%
M	77/1020	A	100%
M	77/1021	A	100%
M	77/1061	A	100%

Forrestania – Nickel Only

Tenement		Status	Equity
E	74/0121	G	100%
E	74/0167	G	100%
E	77/0072	G	100%
E	77/0085	G	100%
E	77/0272	G	100%
E	77/0476	G	100%
E	77/0477	G	100%
E	77/0478	G	100%
E	77/0494	G	100%
E	77/0546	G	100%
GPL	77/0037	G	100%
GPL	77/0038	G	100%
GPL	77/0045	G	100%
GPL	77/0047	G	100%
GPL	77/0048	G	100%
GPL	77/0049	G	100%
GPL	77/0050	G	100%
GPL	77/0068	G	100%
GPL	77/0070	G	100%
GPL	77/0071	G	100%
GPL	77/0072	G	100%
GPL	77/0073	G	100%
L	77/0059	G	100%
L	77/0085	G	100%
L	77/0096	G	100%
L	77/0107	G	100%
L	77/0170	G	100%
L	77/0174	G	100%
L	77/0175	G	100%
L	77/0176	G	100%
M	77/0099	G	100%
M	77/0213	G	100%
M	77/0283	G	100%
M	77/0324	G	100%
M	77/0462	G	100%
M	77/0468	G	100%
M	77/0493	G	100%
M	77/0544	G	100%
M	77/0545	G	100%
M	77/0669	G	100%
M	77/0693	G	100%
M	77/0812	G	100%
M	77/0813	G	100%
P	77/2610	G	100%
P	77/2615	G	100%
P	77/2616	G	100%
P	77/2640	G	100%
P	77/2653	G	100%
P	77/2654	G	100%
P	77/2667	G	100%
P	77/2678	G	100%
P	77/2803	G	100%
P	77/2804	G	100%
P	77/3007	G	100%
P	77/3008	G	100%
E	77/0806	A	100%
M	74/0098	A	100%
M	74/0099	A	100%
M	74/0100	A	100%
M	74/0101	A	100%
M	74/0111	A	100%
M	74/0112	A	100%
M	74/0113	A	100%
M	77/0680	A	100%
M	77/0691	A	100%
M	77/0692	A	100%
M	77/0694	A	100%
M	77/0695	A	100%
M	77/0696	A	100%
M	77/0698	A	100%
M	77/0699	A	100%

Tenement		Status	Equity

Forrestania) Region – Australia (continued)

M	77/0700	A	100%
M	77/0701	A	100%
M	77/0703	A	100%
M	77/0704	A	100%
M	77/0705	A	100%
M	77/0719	A	100%
M	77/0720	A	100%
M	77/0761	A	100%
M	77/0874	A	100%
M	77/0878	A	100%
M	77/0879	A	100%
M	77/0880	A	100%
M	77/0881	A	100%
M	77/0882	A	100%
M	77/0883	A	100%
M	77/0884	A	100%
M	77/0890	A	100%
M	77/0891	A	100%
M	77/0892	A	100%
M	77/0895	A	100%
M	77/0896	A	100%
M	77/0949	A	100%
M	77/0950	A	100%
M	77/0951	A	100%
M	77/0952	A	100%
M	77/0966	A	100%
M	77/1069	A	100%
M	77/1076	A	100%

Southern Goldfields Misc – Australia

Cave Hill

E	15/0819	A	100%

Queensland Temements – Australia

Mount Osprey

EPM	8515	G	37.85%
EPM	11698	G	37.85%

Tati Botswana

Tati

ML	88/2	G	85%
P	8/2001	G	85%

Tenement	Status	Equity

Key:

P	Prospecting Licence
E	Exploration Licence
L	Miscellaneous Licence
M	Mining Lease
GPL	General Purpose Lease
EPM	Exploration Permit Minerals
ML	Mining Licence
EI	Earning Interest
G	Granted
A	Application

Notes:

[1] LionOre is earning a 70% interest in the tenement pursuant to the terms of the Maggie Hays South Joint Venture Heads of Agreement with Heron Resources Ltd.

[2] LionOre is earning a 51% interest in the tenement pursuant to the terms of the Medcalf Joint Venture Heads of Agreement with Jaloro Pty Ltd.

[3] LionOre's equity in the tenements is held pursuant to the terms of the Lehman's Well Joint Venture with Black Mountain Gold NL.

[4] LionOre's equity in the tenements is held pursuant to the terms of the Wilson Creek Joint Venture with Tarmoola Australia Pty Ltd.

[5] LionOre's equity in the tenements is held pursuant to the terms of the Yillaree Joint Venture with Hampton Hill Mining NL.

[6] LionOre's equity in the tenements is held pursuant to the terms of the Spider Well Joint Venture with Devant Pty Ltd and Charles George Chitty.

[7] LionOre's equity in the tenements is held pursuant to the terms of the Melita Joint Venture with Sons of Gwalia Ltd.

[8] LionOre's equity in the tenements is held pursuant to the terms of the Menzies Joint Venture with Golden State Resources Ltd.

[9] LionOre's equity in the tenements is held pursuant to the terms of the Menzies Joint Venture with Heron Resources Ltd.

[10] LionOre's equity in the tenements is held pursuant to the terms of the Ajava Joint Venture with Kundana Gold Pty Ltd.

[11] LionOre is earning a 60% interest in the tenements pursuant to the terms of the Joint Venture Heads of Agreement with Thundelarra Exploration Ltd.

[12] LionOre's equity in the tenements is held pursuant to the terms of the Mount Osprey Exploration Joint Venture with Birla Mt Gordon Pty Ltd.


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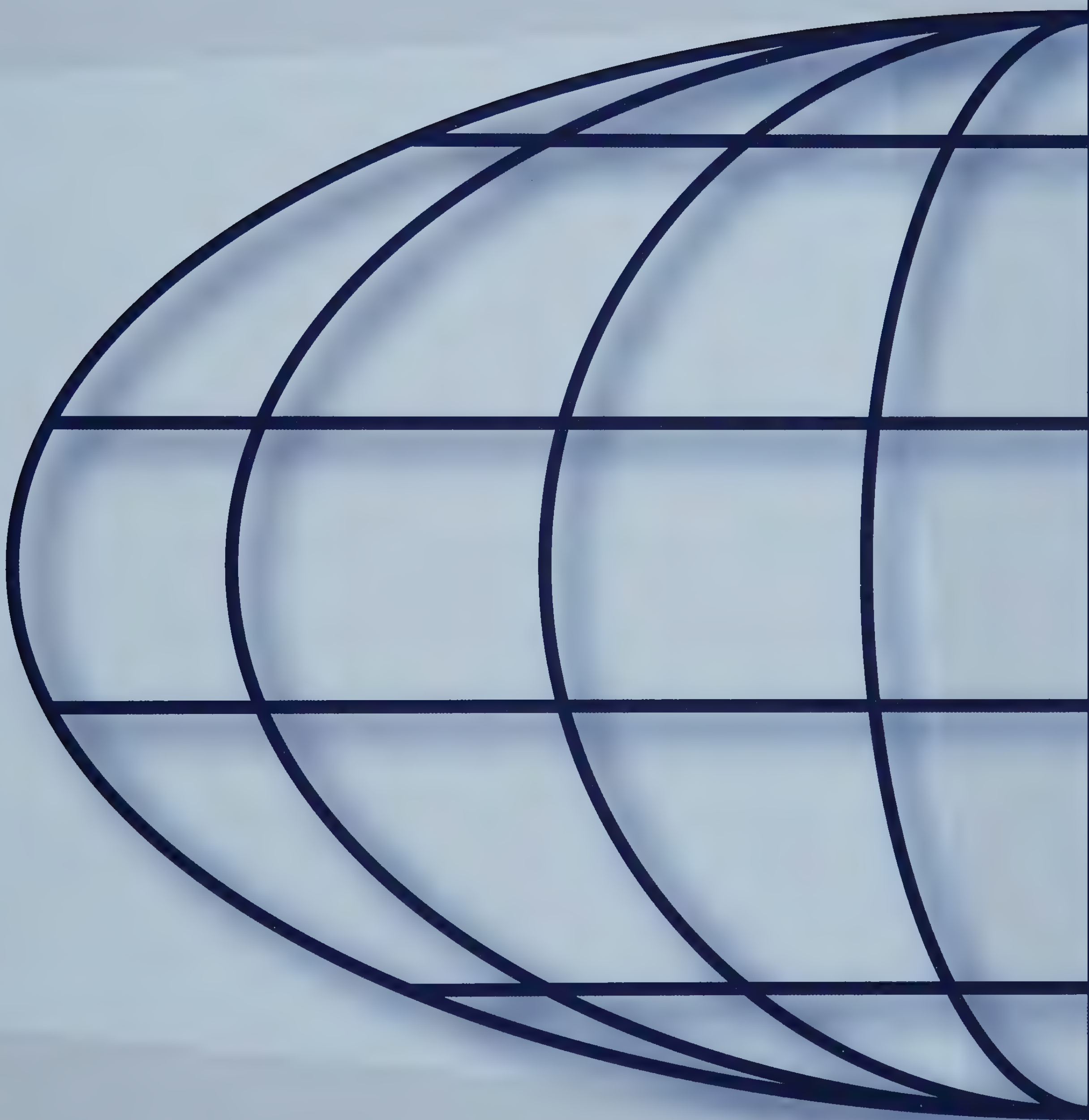
Financial Review

Management's Discussion and Analysis



FINANCIAL REVIEW

Management's Discussion and Analysis

This discussion has been prepared as of March 11, 2004 and should be read in conjunction with the Company's financial statements for the year ended December 31, 2003 which are prepared in accordance with Canadian generally accepted accounting principles.

rd-Looking Statements

Certain statements contained herein are forward-looking and are based on the opinions and estimates of management, or on opinions and estimates provided to and accepted by management. These opinions and estimates include, but are not limited to, commodity prices, changes in government legislation and regulations, geological estimates, competitive factors, costs of production, foreign exchange rates, and litigation.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those expressed or implied. Readers are therefore cautioned not to place reliance on any forward-looking statement.

Introduction

LionOre is an international gold and nickel producer headquartered in Toronto, Canada. The Company's producing mining properties include the Phoenix nickel mine in Botswana and the Emily Ann nickel and Thunderbox gold mines in Australia. The Maggie Hays nickel sulphide deposit, currently under development in Australia, is expected to be a producing nickel mine by the end of 2004. LionOre also has a portfolio of highly prospective exploration properties.

The Company owns the Activox® process, a proprietary technology for processing metal concentrates. The technology is sufficiently advanced that a $10 million demonstration plant will be commissioned and operated at the Phoenix mine site in Botswana in 2004. Should the demonstration plant yield positive results, Activox® is expected to be used by the Company in Botswana by 2007, with a view to increasing payable nickel production by approximately 50% and substantially reducing cash costs.

e – A Growth Company

The Company has grown substantially in the past two years as a result of an integrated program of acquisitions, exploration success and operational efficiency. LionOre's growth has been achieved as a direct result of goals set out at the inception of the Company.

The Company was founded in 1996 by a core group of individuals with extensive experience in base metal exploration, development and mining, and in particular, nickel mining and marketing. With expertise in managing mining operations, metallurgy, and corporate finance, LionOre was established with three long term goals that have remained unchanged from the inception of the Company. They are:

- To enter into joint ventures with strategic partners to acquire equity interests in exploration, mining and downstream operations,
- To identify, invest in and develop exploration projects that have the potential to become low cost mining operations, and
- To identify, acquire and develop mining operations that can be turned into low cost producers by the management and operating resources of LionOre.

In 2002, with increasing confidence in the viability of the Activox® process given successful pilot plant test work in Perth, Australia, a fourth long-term goal was added:

- To develop LionOre's Activox® technology with a view to commercialization in the medium term.

Also in 2002, a number of three-year strategic targets were set out to complement the long-term goals. They are as follows:

- To be recognized as a profitable and growing international mining company with significant producing and exploration properties in Australia, Botswana and other selected mining regions of the world,
- To double attributable nickel production to not less than 30,000 tonnes per year,
- To build on the existing asset base at Thunderbox to provide a sustainable production level in excess of 200,000 ounces of gold per annum,
- To expand existing operations in Western Australia and Africa and to establish important and strategic production bases in highly prospective regions of the world,
- To successfully commercialize the Activox® technology, and
- To retain, enhance and utilize the LionOre corporate and financial management capacity to rapidly pursue and capitalize on appropriate opportunities in the international mineral business.

The following summary of significant developments over 2002 and 2003 reflects the Company's efforts to achieve its three year targets:

2002

- February – The Emily Ann nickel mine, which produced 7,145 tonnes of payable nickel in 2003, reached full scale production only eight months after the commencement of development of the mine. The pre-production capital expenses were $27 million. The Emily Ann deposit was discovered by LionOre.
- February – The Waterloo nickel sulphide deposit was discovered, with initial and follow-up drilling indicating high grade nickel as well as platinum group metals.
- February – Construction of the Thunderbox gold mine commenced. Pre-production capital investment was $33 million.
- May 2002 – The Company raised C$100 million to fund the acquisition of 43.35% of Tati Nickel, thereby increasing the Company's ownership of Tati to a total of 85% effective September 2002.
- May 2002 – LionOre obtained an option to acquire 69% of the Maggie Hays nickel sulphide deposit, which brought the Company's ownership to 100% and allowed LionOre to control the development of the deposit.
- September 2002 – LionOre completed the acquisition of an additional 43.35% of Tati Nickel and began to consolidate the results of Tati. At the time of the acquisition Tati was in the final stages of a capital expansion that doubled the production of the mine from 6,500 tonnes to 12,500 tonnes of payable nickel per annum.
- November 2002 – The Thunderbox Gold mine poured its first gold, less than 10 months after the initial development commenced. The mine produced 212,459 oz of gold in 2003 and is expected to yield in excess of 160,000 oz per year over the remaining life of the mine.
- November 2002 – The Amorac nickel sulphide deposit was discovered adjacent to the Waterloo deposit.
- December 2002 – The Company completed the buy-out of the minority interest in its 80% owned Australian publicly listed subsidiary, LionOre Australia (Nickel) Limited.
- December 2002 – The Company raised C$30 million in a bought deal on the Toronto Stock Exchange and used the proceeds primarily to repay project debt.

FINANCIAL REVIEW
Management's Discussion and Analysis

- January 2003 – The development of Maggie Hays was approved, including the exercise of the option to acquire the remaining 69% of the deposit to bring LionOre's share of the project to 100%. The budgeted pre-production capital expenditures of $22 million are being funded from internally generated cash flows.
- March 2003 – LionOre entered into an agreement with Inco Limited whereby Inco would fund A$15 million ($11.3 million) of exploration expenditure on LionOre's tenements in the Lake Johnston region of Western Australia. In addition, LionOre issued 4 million shares to Inco for proceeds of $15.4 million. The Company used the funds to repay project debt that was due to Inco from the development of the Emily Ann mine.
- March 2003 – LionOre approved the $10 million construction and operation of an Activox® demonstration plant to operate at the Phoenix mine site in Botswana.
- May 2003 – The capital expansion at Tati Nickel was contractually commissioned with final costs of $64.0 million being below the original budget of $66.3 million. The expansion was funded predominantly from internally generated cash flows.
- June 2003 – LionOre and Dalrymple Resources NL ("Dalrymple"), a publicly listed Australian company, announced an agreement to merge. Dalrymple was LionOre's 40% partner in the Wildara joint venture which held, among other assets, the Thunderbox gold mine. The transaction, which was successfully completed during the year, resulted in LionOre issuing approximately 25 million shares to former Dalrymple shareholders.
- November 2003 – LionOre and Thundelarra Exploration Ltd., a publicly listed Australian company, reached an agreement whereby LionOre will earn a 60% interest in Thundelarra's 2,800 sq km of tenements in the East Kimberley region of Western Australia by funding a minimum of A$5 million ($3.8 million) of exploration over a four year period. LionOre also acquired 7.8 million shares of Thundelarra and 11 million options for A$3.5 million ($2.6 million).

The Company is currently achieving its first target of being recognized as a profitable and growing international mining company with significant producing and exploration properties in Australia, Botswana, and other mining regions of the world. With a significant nickel operation in Botswana, and significant nickel and gold mining operations in Australia, the Company has become a mid-tier producer in a relatively short period of time. It has highly prospective exploration tenements in Australia, and a partnership with Inco Limited, whereby Inco will fund A$15 million over a four year period to explore on two of the Company's tenements in the Forrestania and Lake Johnston regions of Western Australia. In addition, the Company's transaction to earn a 60% interest in Thundelarra's East Kimberley tenements substantially enhances LionOre's access to prospective tenements in Western Australia.

Other than Australia and Africa, the Company does not currently have a presence in other mining regions of the world. This objective may be achieved within the three year time frame set out by the Company, however it is not considered to be a primary objective of LionOre at this time given the high quality of the geographies in respect of nickel sulphides where LionOre currently operates.

The Company has made considerable progress in achieving its target of producing 30,000 attributable tonnes of nickel per year. LionOre's attributable production increased to 16,928 tonnes in 2003 from 8,469 tonnes in 2002 and is currently producing around 20,000 tonnes of payable nickel on an annualized basis. Furthermore, it has a number of projects under development which will assure the Company of meeting its targets:

i) If the Activox® demonstration plant in Botswana is successful, and a full scale Activox® plant is built, production in 2007 at Tati could reach 18,000 – 19,000 tonnes of payable nickel per year, with LionOre's attributable share being 85% of that, or 15,300 – 16,150 tonnes.

ii) The Maggie Hays nickel deposit is scheduled to commence nickel production in the fourth quarter of 2004, and together with Emily Ann, will increase production to over 11,000 tonnes of payable nickel per year in this region.

iii) Waterloo and Amorac nickel deposits: The Company is considering an exploration decline which would yield early production and a more effective exploration platform going forward.

iv) Exploration potential: In addition to Inco's participation in nickel exploration on the Lake Johnston and Forrestania tenements, the Company has allotted A$2.1 million ($1.6 million) to explore for nickel in the Northeastern Goldfields (formerly the Wildara joint venture). The Waterloo and Amorac deposits were found with exploration on only 15% of the ultramafics (which are prospective for hosting nickel deposits) and the Company will embark on a program to explore the rest of the ultramafics in the Northeastern Goldfields.

In 2003, the Company acquired the right to earn a 60% interest in Thundelarra's 2,800 sq km tenement package in the East Kimberley region of Western Australia.

In Botswana, the Company will spend $2.0 million, in addition to the $1.5 million spent in 2003, for the 2004 exploration program to explore the areas to the immediate north and the immediate south of the existing pit at the Phoenix mine, with the goal to increase the reserve in 2004. The current pit sits on a 4.5 km long geochemical anomaly. The 2003 drill results have already demonstrated the potential to expand the nickel resource. The Company expects to make a decision regarding the use of Activox® within a year and an increase of the Phoenix reserve will be a factor in the decision to ensure an adequate mine life in 2007 once the Activox® plant comes on line.

The Company's third strategic target is to provide a sustainable level of production at Thunderbox of over 200,000 ounces per year. Thunderbox produced 212,459 ounces of gold in 2003, with LionOre's attributable share being 138,374 ounces. This production level is expected to fall to around 159,000 ounces per year in 2004 because production from the softer oxide zone of the deposit was completed in 2003. Mining will take place in the harder, primary layer of the deposit in 2004 and beyond.

Consequently, the Company has identified three potential ways to increase production:

i) The current pit at Thunderbox, which is scheduled to be mined to a depth of 240 metres, has been drilled to around 400 metres and remains open at depth. The Company will determine the viability of extracting ore from beneath the current pit design depth.

ii) A new area, Zone D, was discovered during 2003 adjacent to the current pit. Open pit development of Zone D could provide a staging area for the potential underground development beneath the current pit.

iii) The Company has identified a number of exploration targets close to the Thunderbox gold mine, and has allocated A$2.9 million ($ 2.2 million) to assess these targets in 2004. Should any of these targets prove to host gold-containing ore, the plant at Thunderbox has adequate capacity to process the ore and produce in the range of 200,000 ounces per year.

The fourth three year strategic target of expanding operations in Western Australia and establishing important and strategic production bases in highly prospective regions has to a certain extent already been accomplished. However, the Company views this target as having sufficient strategic merit to warrant an ongoing corporate initiative to increase its presence in Australia – a mining friendly and highly prospective area of the world – and to investigate opportunities throughout Africa and other prospective regions of the world.

The fifth three year strategic target is to successfully commercialize the Activox® technology. The Company has a pilot plant in Perth that has successfully processed a number of nickel sulphide concentrates on behalf of various companies, including Tati Nickel and Inco. In Botswana, LionOre is building its Activox® demonstration plant at Tati Nickel in 2004 and will be in a position to assess its economic viability on the Phoenix project by the end of the year.

The sixth three year strategic target is to retain, enhance and utilize the LionOre corporate and financial management capacity to rapidly pursue and capitalize on appropriate opportunities in the international mineral business.

This target addresses the ability and capacity of LionOre to achieve its long term goals and strategic targets. The Company has a strong cadre of capable mining executives with proven capabilities to explore, discover, develop, finance, and operate mines in Australia, Africa and elsewhere. There is sufficient depth of management in place to engage in growth oriented corporate activity. This is evidenced in recent years by the consolidation of the Company's operations in Australia that facilitated the development of its nickel assets there, including the buy-out of the 20% minority interest in LionOre Australia (Nickel) Ltd., the acquisition and merger with Dalrymple Resources NL, the securing and exercising of the option on Maggie Hays, and the farm-in agreement with Thundelarra Exploration Ltd.

FINANCIAL REVIEW
Management's Discussion and Analysis

Equally, in Botswana, management has successfully doubled the nickel production with the under-budget construction of a concentrator.

The Company has the proven ability to identify and evaluate attractive investment opportunities, raise the required capital and consummate transactions, as well as the management expertise to implement the projects. The Company is in strong financial position and expects that during the course of 2004, cash on hand will exceed outstanding debt. LionOre believes that it will be in a strong position in 2004 to raise debt to fund projects and to raise equity as required.

...ing Results

LionOre earned $58.1 million on mineral sales of $292.8 million for the year ending December 31, 2003, compared to net income of $2.7 million on mineral sales of $62.0 million in the prior year. Operating earnings for the year ended December 31, 2003, were $101.0 million, compared to $6.3 million for the year ended December 31, 2002.

The significant increase in net earnings and mineral sales reflects the large increase in LionOre's production capabilities and amount of attributable mineral production as compared to the same periods last year. At September 30, 2002, LionOre purchased the controlling interest in Tati Nickel of Botswana bringing its ownership to 85%. The results of Tati were consolidated in LionOre's operating results for the fourth quarter in 2002, whereas the 2003 statements include a full year of Tati's results. The results from the Thunderbox mine have also changed quite substantially from the previous year as the mine did not commence production until November of 2002. In addition, LionOre's ownership percentage of Thunderbox increased to 100% from 60% on October 30, 2003 and therefore the earnings in the final two months of 2003 include 100% of the results of operations of Thunderbox. These changes in the production and ownership profile of the Company result in net income and operating earnings that have substantially increased over the prior year.

The Company's results for the year were affected by volatility in commodity prices and currency values. The nickel price rose steadily throughout the year, responding to forecasts of tightening supply and strong demand. While the increase in the price of nickel benefited LionOre's revenue, the weakening of the U.S. dollar in relation to the Australian dollar and Botswana pula adversely impacted profitability. The Company's costs, which are incurred in the domestic currencies of the countries in which it operates, are higher when translated to U.S. dollars.

Nickel sales, at $211.4 million amounted to 72.2% of the total mineral sales for 2003 (2002 – $53.9 million, 87.0%). Gold sales of $51.9 million were 17.7% of mineral sales (2002 – $2.7 million, 4.4%), copper sales of $16.0 million were 5.4% (2002 – $1.5 million, 2.5%) and other metals sales of $13.6 million were 4.7% (2002 – $3.8 million, 6.1%).

The Company receives final price determination on its sales of nickel and copper based on prices prevailing up to four months subsequent to the ...tual shipment. For certain precious metals produced at Tati, the final price determination can take up to nine months. Consequently, the final price for sales which have been made during the latter months of the year is not known with certainty at the end of the year. When final settlement is made, a positive or negative adjustment is recorded in income to reflect the difference in the price recorded and the price actually realized. The total amount ...f metal sales receivables are evaluated at the end of each reporting period to ensure that the prices of metals in receivables are not in excess of the current prevailing market prices.

OPERATIONAL REVIEW – AUSTRALIA

Australia Nickel earned $21.9 million from $87.7 million of mineral sales for the year ended December 31, 2003. Australia Gold earned $12.9 million from $51.5 million of sales and Australia's other operations earned $0.7 million from non-mining operations. This compares to $6.3 million of net income from $43.5 million of mineral sales realized in the previous year for all of the Australian operations.

Australia Nickel – Lake Johnston Operations (100% owned)

The Lake Johnston Operations are located 540 kilometres east of Perth in the Lake Johnston greenstone belt of Western Australia and host the Emily Ann underground nickel mine and the Maggie Hays nickel sulphide deposit. The Maggie Hays deposit is located just 3 kilometers south of the processing plant at Emily Ann and is being developed as an underground nickel mine. Ore is expected to be produced from Maggie Hays in the fourth quarter of 2004. The project utilizes an on-site conventional nickel sulphide concentrate plant having a nominal annual throughput of 250,000 tonnes of ore per year. The facility is currently operating at close to 320,000 tonnes per annum (producing approximately 8,000 tonnes of payable nickel per annum). The processing facilities are being upgraded to around 500,000 tonnes per annum to process Maggie Hays ore.

The Emily Ann nickel mine produced 52,175 tonnes of concentrate during 2003 (2002 – 41,182 tonnes) to yield 7,145 tonnes of payable nickel (2002 – 5,301 tonnes).

A summary of the production from the Emily Ann mine is as follows:

Production	**Total 2003**	Q4 2003	Q3 2003	Q2 2003	Q1 2003	**Total 2002**	Q4 2002	Q3 2002	Q2 2002	Q1 2002
Ore mined (tonnes)	**291,995**	81,548	72,984	74,182	63,281	**220,559**	65,080	64,622	46,644	44,213
Grade (% Ni)	**3.06**	3.11	2.62	3.61	3.06	**3.15**	3.14	3.23	3.13	3.02
Ore treated (tonnes)	**283,201**	72,590	77,427	70,354	62,830	**220,996**	65,016	67,153	44,571	44,256
Grade (% Ni)	**3.11**	3.19	2.63	3.64	3.04	**3.14**	3.16	3.20	3.18	2.97
Plant recovery (%)	**87.1**	87.3	84.8	88.6	87.4	**83.1**	85.7	84.1	84.7	80.2
Recovered nickel (tonnes)	**7,682**	2,019	1,725	2,271	1,667	**5,815**	1,760	1,806	1,201	1,048
Concentrate produced (tonnes)	**52,175**	13,779	11,781	15,402	11,213	**41,182**	12,084	12,497	8,351	8,250
Produced payable Ni (tonnes)	**7,145**	1,878	1,604	2,112	1,551	**5,301**	1,637	1,679	1,072	913
Concentrate sold (dry tonnes)	**53,120**	28,251	-	17,926	6,943	**40,337**	19,070	7,063	11,308	2,896
Payable Ni (tonnes) sold	**7,195**	3,796	-	2,450	949	**5,278**	2,512	966	1,443	357
Cash cost per pound of payable Ni produced	**$ 2.23**	$ 2.60*	$ 2.51	$ 1.80	$ 2.12	**$ 1.96**	$ 1.93	$ 1.79	$ 2.05	$ 2.22

**Includes a US$0.20/lb adverse adjustment mainly in respect of additional refining charges relating to third quarter production. Due to the Inco strike, the concentrate production was sold during the fourth quarter (at substantially higher nickel prices). The additional cost included in the fourth quarter is a result of the fact that refining charges have a price participation element.*

FINANCIAL REVIEW

Management's Discussion and Analysis

Mining and Processing

Total tonnes mined in 2003 were 291,995 tonnes at 3.06% nickel. For the year the actual plant throughput was 283,201 tonnes, meaning that the plant performed above rated plant capacity for the entire year of operation. Plant metallurgical recovery was 87.1% for the year.

No significant changes to head grade or metallurgical recovery are expected for 2004 production, although treated ore should increase by approximately 13% to 320,000 tonnes. Payable nickel produced by the Emily Ann mine will be in the 7,900 tonne range. Combined Emily Ann and Maggie Hays production is expected to amount to approximately 11,000 tonnes of payable nickel.

Mineral Sales and Operating Costs

Nickel sales for the Emily Ann mine for 2003 were determined as follows:

($000s except where noted)	Q4	Q3	Q2	Q1	Total
Nickel sold (tonnes) – 2003	3,796	–	2,450	949	7,195
Revenue recognized (1)	$ 59,147	$ –	$ 20,324	$ 8,168	$ 87,639
Sales adjustment (2)	–	28	447	1,887	2,362
Nickel hedging (decrement) (3)	(5,054)	(38)	(372)	(883)	(6,347)
Other adjustments (4)	1,281	602	(486)	(207)	1,190
Total Emily Ann Mine- 2003	**$ 55,374**	**$ 592**	**$ 19,913**	**$ 8,965**	**$ 84,844**

Nickel sales for the Emily Ann mine for 2002 were determined as follows:

($000s except where noted)	Q4	Q3	Q2	Q1	Total
Nickel sold (tonnes) – 2002	2,512	966	1,443	357	5,278
Revenue recognized (1)	$ 17,257	$ 6,900	$ 7,969	$ 2,290	$ 34,416
Sales adjustment (2)	3,537	1,204	2,525	(292)	6,974
Nickel hedging (decrement) (3)	(791)	(149)	(362)	–	(1,302)
Other adjustments (4)	390	(487)	–	–	(97)
Total Emily Ann Mine- 2002	**$ 20,393**	**$ 7,468**	**$ 10,132**	**$ 1,998**	**$ 39,991**

1. *Recognized at the price on shipment date.*
2. *For past quarters' sales that were recognized in income at a lower (higher) price than the final settlement price.*
3. *As LionOre delivers into hedges and the price was lower than the prevailing price of nickel during the quarter, a hedging decrement is recorded. At December 31, 2003, the Company has a remaining 2,076 tonnes of nickel hedged in LionOre Australia as required under financing arrangements.*
4. *When final settlement takes place the amount of payable nickel may be slightly different from the amount that was expected at the time of shipment.*

Revenues in 2003 increased due to higher nickel prices as well as increased production levels. Sales of Emily Ann concentrate production are recorded when Inco takes physical delivery on board its ship at the Western Australian port of Esperance. Production is stockpiled until the periodic shipments occur, which can lead to an uneven pattern of revenues being recognized. Although revenue for the concentrate remains unrecorded until Inco physically takes delivery, cash payments are received from Inco on a regular basis for most of the estimated nickel in the concentrate that Emily Ann produces.

The cash cost of production at the Emily Ann nickel mine in Australia was $2.23 for the year ended December 31, 2003 (2002 – $1.96). The cash cost was affected by price participation with the refiners which increases with increasing nickel prices as well as the increase in the value of the Australian dollar in relation to the U.S. dollar. The costs are incurred in Australian dollars. If the US: Australian dollar exchange rates and nickel prices had remained constant with the rates and prices at the end of 2002, the cash cost per pound would have been $1.70/lb for the year ended December 31, 2003.

Depreciation and amortization of $13.6 million (2002 – $6.3 million) is attributable to Lake Johnston operations for the year. This charge reflects the depreciation and amortization of the Company's producing mining assets in the region, based on a units of production calculation. Maggie Hays assets are not yet being depreciated as commercial production has not commenced at that site.

Maggie Hays Nickel Deposit

LionOre continued the development of the Maggie Hays nickel deposit, but experienced significant delays during the fourth quarter due to large quantities of water flowing into the mine at the decline face, resulting from the intersection of a large water bearing structure in late September. The structure has been grouted and a process has been implemented to monitor the water flows. Despite the delays experienced, production is still expected in the fourth quarter of 2004 as previously indicated, however the capital costs will be more than originally expected as a result of the remedial action which had to be taken to deal with the water problems.

It is expected that A$20.2 million ($15.2 million) in pre-production capital expenditures will be incurred in 2004 in addition to the $10.9 million spent in 2003.

The Company continues to assess the various opportunities to enhance the Maggie Hays project through possible exploitation of:

- Upper massive sulphide mineralization (UMS);
- North Shoot;
- Disseminated sulphide;
- Additional lower massive sulphide (LMS) mineralization;
- Regional exploration success, and
- Treatment of third party ore.

AUSTRALIA GOLD – THUNDERBOX (100% after October 30, 2003)

The Thunderbox gold mine is located in the Northeastern Goldfields of Western Australia. It consists of an open-pit mine that utilizes an on-site treatment facility incorporating single stage crushing, a SAG mill and a ball mill followed by conventional CIL leaching and elution circuits. The treatment facility had a throughput of 2.5 million tonnes per annum for the first year of operation while processing ore from the oxide zone, reducing to approximately 2.3 million tonnes per annum during subsequent years while processing ore from the primary zone.

The Thunderbox gold mine produced 212,459 ounces of gold during 2003. The mine commenced production in November of 2002 and 17,790 ounces of gold were produced in 2002. Thunderbox is budgeted to produce 159,000 ounces of gold during 2004. Throughout 2003, the Company took advantage of favourable prices in gold hedging contracts and delivered into hedges at prices above spot market prices.

FINANCIAL REVIEW

Management's Discussion and Analysis

Production Summary

Production (100% Basis)	Q4 2003	Q3 2003	Q2 2003	Q1 2003	**Total 2003**	Total 2002*
Ore mined (tonnes)	564,798	636,281	709,646	636,198	**2,546,923**	400,267
Grade (g/t)	2.20	2.50	2.89	3.14	**2.70**	2.18
Ore treated (tonnes)	563,069	619,808	712,462	620,248	**2,515,587**	242,117
Grade (g/t)	2.22	2.37	2.96	3.18	**2.70**	2.38
Plant recovery (%)	95.3	96.7	97.2	96.8	**96.6**	95.9
Gold produced (ounces)	39,498	45,699	65,845	61,417	**212,459**	17,790
Gold poured (ounces)	38,811	46,204	64,984	62,905	**212,904**	13,013
Cash cost per ounce of gold produced	$ 213	$ 154	$ 110	$ 108	**$ 138**	$ 95

* Mine commenced commercial production in November 2002.

Ore Processing

For 2003 the plant throughput of 2.5 million tonnes of ore was at plant design capacity. Throughput fell in the second half of the year once the harder primary ore began to be treated. The ball mill was commissioned in the fourth quarter of the year which will assist the SAG mill to treat the harder ore. The average grade of ore treated for the year was 2.70 g/t Au at a metallurgical recovery rate of 96.6%.

Ore mined at the Thunderbox gold mine in 2004 is expected to be approximately 2.3 million tonnes, with head grades and metallurgical recoveries similar to those realized in the fourth quarter of 2003. The reduction of ore mined, average recoveries and head grade in 2004 compared to 2003 is the expected result of drilling in the harder, primary layer of the Thunderbox orebody. Consequently, the total production will fall from 212,459 ounces produced in 2003 to approximately 159,000 ounces in 2004.

Mineral Sales and Operating Costs

Gold sales were determined as follows:

($000s except where noted)	Q4	Q3	Q2	Q1	**Total 2003**	Q4 2002 *
Gold sold (oz) (1)	34,597	27,722	39,006	37,727	**139,052**	7,808
[illegible] recognized	$ 13,736	$ 10,177	$ 13,296	$ 13,176	**$ 50,385**	$ 2,600
Gold hedging increment (2)	100	412	596	33	**1,141**	15
Total Thunderbox- 2003	**$ 13,836**	**$ 10,589**	**$ 13,892**	**$ 13,209**	**$ 51,526**	**$ 2,615**

* Mine commenced commercial production in November 2002.

(1) Gold sold figure is LionOre's percent share of sales from the mine. From November 2002 to October 2003 LionOre's share was 60%. Beginning in November 2003 LionOre's share was 100%.

(2) LionOre has 302,191 ounces of gold hedged from production at its Thunderbox gold mine as required under financing arrangements. LionOre delivered 73,325 ounces of gold into hedge contracts during 2003 (2002 – 1,463 ounces). At December 31, 2003, the Company's hedged price of gold per ounce was A$568 ($427).

Thunderbox cash cost per ounce was $213 per ounce for the quarter ended December 31, 2003 and $138 for the year. The cash costs for the fourth quarter and year ended December 31, 2002, were $95 per ounce. The increased cost is the result of the planned processing of lower grade and harder ores from lower levels of the mine in the latter half of 2003 as well as the effect of the strong Australian dollar. If the US/Australian dollar exchange rates had remained constant with the rates and prices at the end of 2002, the cash cost per ounce would have been $120 for the year ended December 31, 2003

Depreciation and amortization of $11.8 million for the year ended December 31, 2003, is attributable to Thunderbox operations (2002- $0.7 million). This charge reflects the depreciation and amortization of the Company's producing mining assets at Thunderbox, based on a units of production calculation. The charge is significantly increased after October 2003 due to the increase in the book value of the mineral property resulting from the cost of the acquisition of Dalrymple's 40% interest being recorded. Of the total purchase price of $101.0 million of the Dalrymple acquisition, $25.2 million was ascribed to the Thunderbox mine.

Operational Review – Botswana

TATI NICKEL – PHOENIX (85%)

Tati Nickel operates the Phoenix open pit nickel mine located 35 kilometres east of Francistown in Northeastern Botswana. The project utilizes a newly commissioned on-site conventional nickel sulphide concentrate plant having a projected annual throughput of 3.6 million tonnes of ore producing 12,500 tonnes of payable nickel per year. An Activox® demonstration plant is planned to be assembled and operating on site at Tati Nickel in 2004.

Tati Nickel's earnings before non-controlling interest were $34.2 million for the year ended December 31, 2003. This compares to earnings of $1.8 million for the year ended December 31, 2002.

Tati Nickel's sales were strong during the year, with 11,509 tonnes of payable nickel sold reflecting the progressive improvement in production throughout the year. The payable nickel amount was an excellent achievement given the BCL force majeure that occurred during the first quarter (discussed below). Tati also benefited from the increased nickel price during the year. Tati Nickel does not hedge any of its metal production.

A summary of Tati Nickel's mine production is as follows:

Production	**Total 2003**	Q4 2003	Q3 2003	Q2 2003	Q1 2003	**Total 2002**	Q4 2002	Q3 2002	Q2 2002	Q1 2002
Phoenix Mine										
Ore mined (tonnes)	**2,934,963**	788,088	771,624	756,825	618,426	**2,350,642**	737,006	636,365	562,584	414,687
Grade (% Ni)	**0.60**	0.59	0.62	0.59	0.59	**0.59**	0.55	0.59	0.52	0.76
Concentrator										
Ore treated (tonnes)	**3,065,652**	878,000	778,000	811,000	598,652	**1,429,000**	663,000	524,000	242,000	–
Grade (% Ni)	**0.63**	0.58	0.61	0.65	0.68	**0.58**	0.65	0.58	0.41	–
Plant recovery (%)	**85**	89	88	81	80	**76**	79	77	62	–
Recovered nickel (tonnes)	**16,303**	4,589	4,178	4,280	3,256	**6,354**	3,395	2,342	617	–
Concentrate produced (tonnes)	**280,434**	80,020	75,929	73,558	50,927	**93,935**	46,164	37,767	10,004	–
Concentrate sold (tonnes)	**278,746**	83,507	84,938	78,810	31,491	**93,935**	46,164	37,767	10,004	–
Payable nickel (tonnes)	**11,509**	3,360	3,320	3,252	1,577	**4,725**	2,268	1,955	502	–
Magnetic Separation Plant										
Payable nickel (tonnes)	**–**	–	–	–	–	**2,298**	51	155	702	1,390
Selkirk Mine										
Payable nickel (tonnes)	**–**	–	–	–	–	**454**	–	281	78	95
Total payable nickel (tonnes) sold	**11,509**	3,360	3,320	3,252	1,577	**7,477**	2,319	2,391	1,282	1,485
Total payable copper (tonnes) sold	**8,141**	2,195	2,293	2,482	1,171	**4,551**	1,941	1,478	658	474
Cash cost per pound of Ni produced	**$ 2.37**	$ 2.52	$ 2.22	$ 2.24	$ 2.67	**$ 2.35**	$ 2.12	$ 2.04	$ 3.60	$ 2.15

FINANCIAL REVIEW

Management's Discussion and Analysis

Ore Processing

The concentrator at Tati performed exceptionally well during the fourth quarter. Metal production in the quarter surpassed previous achievements with significant improvements being realized in nickel recovery.

Tati Nickel is projected to increase its ore treated to 3.6 million tonnes in 2004, from 3.1 million tonnes in 2003. The grade of ore treated is expected to decrease to 0.60% from 0.63% in 2003, while the recovery rate is expected to increase to 88% in 2004 from 85% in 2003. Payable nickel production is expected to be in the range of 13,000 tonnes.

Mineral Sales and Operating Costs

Tati's nickel sales for 2003 were determined as follows:

($000s except where noted)	Q4	Q3	Q2	Q1	Total	Q4 2002*
Nickel sold (tonnes)	3,360	3,320	3,252	1,577	11,509	2,319
Revenue recognized (1)	$ 41,564	$ 31,018	$ 27,299	$ 13,211	$ 113,092	$ 13,928
Sales adjustment (2)	5,966	2,773	1,936	2,745	13,420	–
Total nickel sales	**$ 47,530**	**$ 33,791**	**$ 29,235**	**$ 15,956**	**$ 126,512**	**$ 13,928**

* Tati's sales prior to Q4, 2002 were not consolidated by LionOre and were not prepared in accordance with LionOre's accounting policy for revenue recognition. For this reason the comparative figures have not been included in this discussion.

(1) Recognized at the price on shipment date.

(2) For past quarters' sales that were recognized in income at a lower price than the final settlement price.

The Company's revenue recognition policy is to record revenue based on metal prices at the date of shipment. These amounts are adjusted to actual prices at the time of final settlement. The final settlement price is arrived at between four and nine months respectively for nickel and precious metals after the month of delivery of concentrate to coincide with the smelting and refining processes producing final saleable metals.

Nickel sales in the first quarter of 2003 were adversely impacted by the shutdown of the BCL smelter, where Tati Nickel sends its concentrate for treatment. The smelter was shut down for a six week period from February 3 to March 18, 2003, during which time BCL declared force majeure and ceased accepting production from Tati. Tati Nickel took this opportunity to effect certain improvements and repairs over a two week period during the shutdown. The production from Tati that was stockpiled during the period of the smelter shutdown was treated throughout the remainder of the year. By the end of the year all the stockpiled amounts had been delivered to BCL or an alternative facility for treatment.

In June and July of 2004, BCL has planned a fifty-five day smelter shutdown. During this time BCL will be effecting expected end of campaign capital repairs to the flash furnace (reaction shaft shell, roof, hearth and refractory re bricking), the electric furnace, precipitators and boiler. After the repairs it is anticipated that the smelter will not require further major repairs for another 5-7 year campaign.

Tati Nickel will continue to produce concentrates throughout the duration of the BCL shut-down and will send a portion of the concentrates to alternative treatment facilities. The remaining production will be stockpiled for treatment later in the year. At this time Tati is anticipating that 700 tonnes of the 13,000 tonnes of payable nickel produced during 2004 will remain untreated by the end of the year. However, efforts will be made during the course of the year to secure treatment of the residual 700 tonnes of payable nickel.

Tati Nickel's cash costs for the year ended December 31, 2003, were $2.37 per pound. This compares to $2.35 in the prior year. The principal reason for the cash cost variance is that the Botswana pula appreciated a total of 23% against the US dollar over the year. The cash cost increase throughout the year was in line with expectations considering the continued appreciation of the Botswana pula throughout 2003 and the higher nickel price, with related refinery price participation. If the US/BP exchange rates and nickel prices had remained constant with the rates and prices at the end of 2002, the cash cost per pound would have been $2.02 for the year ended December 31, 2003.

Tati nickel and copper sales were $141.7 million for the year ended December 31, 2003. Sales of all other minerals were $11.9 million for the year

ended December 31, 2003. Most of the company's by-product metal sales (90%) are derived from Tati Nickel.

It should be noted that the Company did not reflect Tati's sales in the first nine months of the prior year because the Company's ownership in Tati Nickel was 41.65% until September 30, 2002, and therefore accounted for Tati's results using the equity basis of accounting prior to that date.

Depreciation and amortization of $10.2 million for the year ended December 31, 2003 is attributable to Tati operations. This charge reflects the depreciation and amortization of the Company's producing mining assets at the Phoenix mine, based the percentage of depreciation of the reserves. In the prior year the charge was $1.8 million which related to the fourth quarter only as previous to this period the results of Tati were not consolidated.

Cash Costs per Pound of Nickel Produced and per Ounce of Gold Produced

LionOre provides cash cost information as it is a key performance indicator required by users of the Company's financial information in order to assess the Company's performance relative to its peers. The cash cost figure represents the total of all cash costs directly attributable to the related mining operations after the deduction of credits in respect of by-product sales. Cash cost is not a GAAP measure and although it is calculated according to accepted industry practice, the Company's cash costs disclosed may not be directly comparable to other nickel producers. By-product credits, in particular copper and platinum group metals (PGM's), are an important factor in determining the cash costs. The cost per pound experienced by the company will be positively affected by rising prices for copper and platinum group metals and adversely affected when prices for these metals are falling.

Cash cost per pound of nickel x pounds sold:		
	Tati nickel	$ 60.1 million
	Australia nickel	35.4 million
Cash cost per ounce of gold x gold ounces sold:		
	Australia gold	19.1 million
Total cash costs		**114.6 million**
Add:		
	By-product revenues	29.9 million
	Other	2.3 million
Total operating costs		**$ 146.8 million**

Review of Administrative and Other Expenses

General and administrative

General and administrative expenses for the year ended December 31, 2003, were $9.1 million, compared to $6.4 million for the prior year. This increase is, in large part, due to the expenses of Tati Nickel, which were not included in the first nine months of 2002 as Tati Nickel's results were not consolidated. The amount of Tati's general and administrative expense reflected in the Company's financial statements in 2003 was $2.9 million as opposed to $0.7 million in 2002. In addition, the increase over last year reflects the activity and growth of the Company in 2003 with certain increases in staffing, legal, business development, and travel costs. The Company incurred a non-recurring expense of $0.3 million for costs related to the Company's listing on the Australian Stock Exchange. In the prior year, an amount of $1.3 million was spent on the Company's London Stock Exchange listing.

The Company believes that its corporate initiatives, such as business development activity will increase in 2004, thereby increasing general and administrative expenses on an annual basis.

Foreign Exchange

The Company recorded a foreign exchange loss of $7.5 million for the year and ended December 31, 2003. This compares with a foreign exchange loss for the previous year of $0.5 million. The Company holds cash and receivables in U.S. dollars in both Australia and Botswana and therefore will experience losses as the Botswana pula (BP) and Australian dollar (A$) appreciate against the U.S. dollar. The Botswana pula appreciated steadily against the U.S. dollar throughout 2003, beginning the year at BP1.00/US$0.1831 and ending the year at BP1.00/US$0.2256, an appreciation of 23% during the year. The A$ also appreciated, with a greater rise against the U.S. dollar, beginning the year at A$1.00/US$0.5666 and ending the year at A$1.00/US$0.7520, an appreciation of 33% during the year.

The exposure to foreign exchange losses on U.S. dollar denominated assets has been partially offset by U.S. dollar denominated debt held by Tati Nickel. The natural hedge effect of U.S. debt on foreign exchange gains and losses was somewhat offset by the use of foreign exchange hedging contracts against known principal repayments of debt on the U.S. dollar Tati purchase loan. Tati Nickel entered into foreign exchange forward contracts to lock in the amount of Botswana pula that would have to be paid to satisfy certain U.S. dollar principal repayments. The hedges were as follows:

U.S. Dollar Hedging Summary

Settlement Date	Settlement Amount (US$000s)	Loss on Settlement (US$000s)
September 2003	800	60
September 2003	4,100	904
December 2003	4,100	233
May 2004	4,600	529
Total	**13,600**	**1,726**

Hedges were also entered into to protect against the possible appreciation of the Australian dollar against the Botswana pula as the payments for the construction of the Activox® demonstration plant are due from Tati in Australian dollars. Tati Nickel entered into foreign exchange forward contracts to lock in the amount of Botswana pula that would have to be paid to satisfy the A$ payables.

The hedges were as follows:

Australian Dollar Hedging Summary

Settlement Date	Settlement Amount (A$000s)	Loss on Settlement (US$000s)
July 2003	992	28
August 2003	1,000	53
September 2003	1,250	87
October 2003	2,200	168
November 2003	2,200	124
December 2003	361	30
Total	**8,003**	**490**

All losses on foreign exchange hedges have been recorded as a foreign exchange expense in the Company's statement of earnings at December 31, 2003.

During 2003, a corporate hedging policy was implemented that precludes the Company from entering into any further foreign exchange hedging arrangements except as specifically permitted by the Board of Directors. LionOre does not intend to enter into additional foreign exchange forward contracts in 2004.

The Company also has an outstanding Canadian dollar denominated debenture in the amount of C$10.85 million. The revaluation of this debenture resulted in a foreign exchange loss being recorded due to the appreciation of the Canadian dollar versus the U.S. dollar. The Canadian dollar has appreciated from C$1.00/US$0.6329 at December 31, 2002, to C$1.00/US$0.7738 at December 31, 2003, resulting in an exchange loss of $1.5 million during 2003. The exchange loss in the prior year on this debenture was less than $0.1 million.

Gain on marketable securities

The Company recorded a large gain on marketable securities during 2003 resulting from the sale of shares held in Jubilee Mines NL. A total of 3.9 million shares of Jubilee Mines NL were divested at an average share price of $1.11 per share for total proceeds of $4.3 million. The shares were recorded at a book value of $0.39 per share ($1.5 million) which resulted in a gain of approximately $0.72 per share or $2.8 million. In the previous year the Company was able to realize $0.5 million on the sale of 3.5 million shares of Viceroy Resource Corporation that were obtained when a debenture due to LionOre was converted to shares. The Company is fully divested of its holdings in both Jubilee Mines NL and Viceroy Resource Corporation.

Interest and investment income

Interest and investment income of $1.5 million for the year ending December 31, 2003 (2002 – $1.5 million) consists mainly of interest earned on cash balances held in the Company.

Interest expense

The increase in interest expense to $7.7 million for the year ending December 31, 2003, from $4.6 million in 2002, is a function of the increased amount of long term debt held throughout the full year compared to the prior year. The debt in Tati Nickel is the main contributor to the increase in interest expense. In 2002, the Tati debt and interest incurred thereon was included in LionOre's financial statements only after the acquisition of a controlling interest on September 30, 2002. For 2003 the debt and the related interest were consolidated for the entire year. Interest expense directly attributable to Tati Nickel operations is $3.4 million for 2003 and $1.0 million for 2002. This does not include the interest on the $20 million loan required to purchase the controlling interest in Tati Nickel in September of 2002, as the loan is a corporate facility and is not held directly by Tati.

In addition, Thunderbox was in the development stage during the first nine months of 2002, with any interest incurred on project debt capitalized in accordance with Canadian GAAP. For 2003, with the mine in commercial production throughout the year, the interest was fully expensed. The increase in interest expense resulting from project and acquisition related debt was partially offset by a reduction in corporate interest expense, as a debenture that was outstanding during the first six months of 2002, was retired through its conversion to common shares on July 2, 2002.

Provision for disputed stamp duty

The sale of Bounty Gold Mine to Viceroy Resource Corporation in 1999 attracted an assessment of A$5.3 million ($2.9 million) of Australian stamp duty including interest. The State Revenue Department of Western Australia required the Company to pay this amount in full in advance of a court ruling on the matter. This assessment was paid in full and was recorded as a deposit in other current assets. The Company settled the matter with the State Revenue Department of Western Australia by accepting a refund in the amount of A$3.0 from the A$5.3 million paid. The remaining A$2.3 million ($1.3 million) was written off in 2002. The actual cash refund was received by the Company in 2003.

Share of earnings of Tati Nickel

The share of earnings of Tati Nickel of $0.5 million in the 2002 consolidated statement of earnings results from the Company recording its equity interest (41.65%) in the operating results of Tati as calculated using the equity method of accounting to September 30, 2002. At that date, the company acquired an additional 43.35% of Tati Nickel, and consolidated its results beginning in the fourth quarter of 2002. There is no similar amount in the current year as the results of Tati are now consolidated.

FINANCIAL REVIEW

Management's Discussion and Analysis

Future income taxes

The Company's income tax expense of $26.8 million for 2003 is a reflection of the Company's strong results for 2003. The expense consists of $16.4 million of future income taxes in Australia where the statutory tax rate is 30%, $10.0 million of future income taxes in Botswana where the statutory tax rate is 25%, and an amount of $0.4 million at the corporate level.

The Company's tax recovery for the year ended December 31, 2002, consists of a tax expense of $0.3 million on the net earnings of Tati Nickel for the fourth quarter of 2002 and a recovery of $1.8 million principally due to the recognition of prior years' unrecognized tax losses in the Company's Australian operations as a result of the view that these tax benefits are now likely to be realized.

Australia has undergone significant tax reform in 2003. Part of this reform involves the potential consolidation of group companies into one tax entity. For LionOre's Australian companies, an election can be made effective any time from January 1, 2003 onward to enter the consolidation regime. If LionOre does not elect to enter the tax consolidation regime upon or before filing tax returns for the year ended January 1, 2004, existing tax losses will only be available to the individual companies holding the tax losses. This may impact on the timing of recoupment resulting in a need to provide for and pay income tax despite still having group tax losses. Alternatively, an election to enter the tax consolidation regime involves recording pre-consolidation tax losses on the basis of each individual company's market value to the group and determining the rate at which tax losses will be available against future group tax income on this basis. An option is available to cancel or forego tax losses at the time of entering tax consolidation in some entities to achieve the optimum result.

The Company has undertaken a comprehensive review of the circumstances including seeking the advice of outside counsel and currently expects to elect to enter the tax consolidation regime. The optimal timing of the election and the determination of which subsidiaries will be included has not yet been finalized. Management believes that it is more likely than not that existing Australian tax loss carry forwards in the amount of A$25.5 million will be available to offset Australian taxes otherwise payable in the current and future periods.

Non-controlling interest

The non-controlling interest of $1.2 million for the year ending December 31, 2002, represents a 20% minority interest in LionOre Nickel held by the public during the year, the 20% minority interest in Western Minerals Technology, and the 15% interest in Tati Nickel held by the Government of the Republic of Botswana for the fourth quarter of 2002. The acquisition of the 20% minority interest in LionOre Nickel was effected December 31, 2002, so that the non-controlling interest in 2003 of $5.4 million reflects only the 15% holding of Tati Nickel by the government in Botswana, and the 20% minority interest of Western Minerals Technology.

Accretion of equity component of convertible debentures

The amount of $0.4 million in 2002 is related to accounting for the convertibility feature of the 10% unsecured convertible debentures due May 2005. The Company forced conversion of the debentures in the third quarter of 2002.

icial Condition, Cash Reserves and Liquidity

The Company strengthened its financial position during the year. Net debt (outstanding debt less cash) was sharply reduced during the year from $79.2 million at December 31, 2002, to $35.8 million at December 31, 2003.

Cash and cash equivalents

Cash and cash equivalents of $35.3 million include $18.5 million held by LionOre Australia, $4.1 million held by Tati Nickel and $12.7 million held at the corporate level. Overall, cash and cash equivalents increased by $13.4 million during the year, driven by strong cash flow from operations of $70.2 million. This compares to operating cash flows of $5.2 million in 2002. Cash from operations was used primarily to repay debt and invest in capital assets.

Cash generated from operations during the year includes the receipt from the State Revenue Department of Western Australia of the disputed tax assessment in the amount of A$3.0 million ($2.3 million). Cash generated from the sale of securities included the proceeds of $4.3 million from the sale of shares in Jubilee Mines NL. In the previous year there were minor amounts resulting from the sale of securities in the prior year, totaling $0.5 million.

Inventories

Inventories have grown significantly to $11.6 million in 2003 from $4.2 million in 2002. Parts and supplies in Tati Nickel have increased (see Note 6 to the Consolidated Financial Statements), largely as a result of Tati stocking supplies related to the new concentrator facility. In Australia, gold inventories increased over the previous year due to the timing of shipments from the Thunderbox mine.

Accounts receivable

The Company's receivables amounted to $96.5 million at December 31, 2003, which is a significant increase from the December 31, 2002, balance of $33.0 million. The receivables in LionOre Australia have increased from $5.3 million in 2002 to $40.6 million in 2003. There were three shipments of nickel concentrate from LionOre Australia in the fourth quarter of 2003, with the last of those shipments occurring at the end of December. The shipments in the fourth quarter represented nearly all the production from the Emily Ann mine for the third and fourth quarters, as there were no shipments in the third quarter.

In Tati Nickel, receivables balances increased from $27.3 million in 2002 to $55.8 million in 2003. At Tati, the pipeline for sales receivables is up to four months for nickel and up to nine months for other metals. The concentrator at Tati which doubled the production was in the commissioning stage in the last quarter of 2002, so the sales that were in receivables at December 31, 2002, were from lower production levels than the 2003 production levels. Tati's nickel sales for 2003 were 11,509 tonnes of payable nickel compared to 7,477 tonnes of payable nickel in the previous year.

Property, plant and equipment

Property, plant and equipment increased $66.6 million from $228.6 million at December 31, 2002, to $295.2 million at December 31, 2003. $25.2 million of this increase is attributable to the 40% of the Thunderbox mine that was acquired effective October 30, 2003, through the merger agreement with Dalrymple Resources. In addition the Company made investments in property, plant and equipment during 2003 amounting to $19.7 million. This includes $12.1 million in Australia for costs of existing mine development, costs to upgrade the Emily Ann processing facility and also includes $1.0 million for the settlement of a contract dispute regarding the construction of the Thunderbox gold mine.

Included in equipment is an amount of $6.2 million capitalized by Tati Nickel for expenditures made on the testing of Tati Nickel concentrates using the Activox® hydrometallurgical process to produce nickel and $8.5 million invested in the construction of the Activox® demonstration plant. The Company has determined that the Activox® process is sufficiently advanced and its employment at Tati Nickel is sufficiently assured that the capitalization of development expenditures is warranted. A feasibility study to establish a full scale Activox® plant at the Phoenix mine site was initiated in January 2003, and is currently being finalized. In addition to these activities, there is an increase in the balance for mineral properties, plant and equipment due to the appreciation of the Australian dollar and Botswana pula in relation to the U.S. dollar. The assets are denominated in these domestic currencies and therefore when stated in U.S. dollars will be greater than they would have been in the previous year.

Mineral exploration and development properties

Mineral exploration and development properties increased $122.4 million from $41.6 million at December 31, 2002, to $164.0 million at December 31, 2003. $79.4 million of the increase is due to the acquisition of the exploration properties of Dalrymple Resources NL.

Part of the increase is related to the exercise of the A$16.7 million ($10.1 million) option to purchase the 69% of the Maggie Hays nickel deposit that was owned by QNI Pty Ltd. The option included QNI's interest in the surrounding Lake Johnston exploration tenements. A$6.0 million (US$4.5 million) was paid on exercise of the option on March 4, 2003. The remaining amount is payable over a five year period, with those payments that fall due more than one year from December 31, 2003, included on the balance sheet as other liabilities. The exercise of the option brought the Company's ownership in the deposit to 100%.

There were $10.9 million of expenditures related to the Maggie Hays nickel project during the year as the mine's development progressed.

As with the mineral properties, plant and equipment, the appreciation of foreign currencies in relation to the U.S. dollar results in higher balances when the assets are translated to U.S. dollars from their native currencies.

FINANCIAL REVIEW

Management's Discussion and Analysis

Other long-term investments and assets

The Company entered into an agreement with Thundelarra Exploration Ltd., a publicly listed Australian company that involved a share placement of Thundelarra shares as well as a joint venture on Thundelarra's tenements. LionOre purchased 7.8 million shares of Thundelarra for A$ 3.5 million (US$2.6 million) and also received 11,000,000 options exercisable at A$0.68 cents. LionOre owns approximately 12% of Thundelarra's issued share capital on an undiluted basis. Under the terms of the joint venture LionOre will earn a 60% interest in Thundelarra's tenements, which encompass some 2,800 sq kms in the East Kimberley region of Western Australia, by funding not less than A$5 million (US$3.8 million) of expenditure over a five year period.

Restricted cash

In Botswana, $7.5 million of cash has been placed in a reserve account in relation to loans provided to Tati Nickel by Rand Merchant Bank. The $7.5 million was deposited as security at the outset of the Tati expansion loan in 2002 and will be used to fund the last four principal repayments of that loan.

In Australia, an amount of A$3.2 million ($2.4 million) has been placed in a loan repayment account in relation to the Emily Ann project loan. The amounts will be released after the final project loan repayment is made. This loan will be fully repaid in 2004.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities have considerably increased over the course of this year because of the step up in production that LionOre has experienced in the past year. Total production increased from 12,778 tonnes of payable nickel in 2002 to 18,723 tonnes of payable nickel in 2003. A resultant increase in the Company's working capital was expected to follow this growth.

Long-term debt

Total long-term debt has been significantly reduced from $102.0 million at December 31, 2002, to $77.0 million at December 31, 2003. The Company's net principal repayments on debt obligations were $52.9 million, funded primarily from the Company's strong cash flows from operations. In addition to regularly scheduled principal repayments the Company made early repayment on certain loans. In Australia, $14.1 million of debt related to Emily Ann was repaid to Inco Limited. As well, a corporate cash facility of A$5 million ($3.8 million) that was due in December of 2004 was repaid in December of 2003. In Botswana, Tati Nickel made an early repayment on loans amounting to $5.2 million which were owing to the Botswana Power Corporation and the Government of Botswana related to the infrastructure at the Phoenix mine.

The Company also took on additional debt, adding a $7.0 million loan related to the construction of the Activox demonstration plant at Tati Nickel and acquiring A$14.0 million ($10.5 million) of debt with the assets of Dalrymple Resources NL that represented Dalrymple's 40% share of the project loans related to the development of the Thunderbox gold mine.

In addition to these debts, the effect of translation of foreign currency denominated debt caused an increase in the amount of debt when stated in U.S. dollars. Of the $77.0 million of long-term debt at December 31, 2003, $24.9 million is Australian dollar denominated, $8.2 million is Canadian dollar denominated, and $0.9 million is Botswana pula denominated, with the remaining $43.0 million in U.S dollars. Because each of these currencies strengthened against the U.S. dollar during 2003, the amount of foreign currency denominated debt is greater when stated in U.S. dollars than if foreign exchange rates had remained at December 31, 2002, levels. $35.4 million of long-term debt is scheduled for repayment in 2004.

Non-controlling interest

The non-controlling interest shown on the balance sheet of $15.2 million at December 31, 2003, comprises the Government of the Republic of Botswana's 15% share of Tati Nickel. The non-controlling interest, which is denominated in Botswana pula and translated to U.S. dollars, increases by the 15% share of Tati Nickel's income after taxation that is recorded in the statement of operations after and decreases when dividends are paid. During 2003 there were two dividends paid from Tati Nickel and the Government of Botswana's share of these dividends amounted to $0.6 million.

Cumulative translation adjustment

The large increase in the CTA of $60.6 million is a result of the translation of net assets of the Company, which are denominated substantially in Botswana pula and Australian dollars.

Share capital

The common shares in the amount of 163,702,704 outstanding at December 31, 2002, increased to 194,077,600 at December 31, 2003. There were two major equity issues as well as some other smaller issues to satisfy warrant and option exercises (see Note 13 in the Notes to the Consolidated Financial Statements).

On March 21, 2003, the Company issued 4,000,000 common shares to Inco at C$5.75 per share for proceeds of C$23 million ($15.4 million). The funds were used primarily to repay project debt due to Inco related to the Emily Ann mine.

Pursuant to the merger agreement with Dalrymple Resources, to consolidate the Company's assets in the Northeastern Goldfields of Western Australia, LionOre issued 24,989,396 shares to the former shareholders of Dalrymple in November of 2003. The shares were issued at a rate of 1 LionOre share for every 2.92 Dalrymple shares. The value of the shares issued based on the prevailing share prices at the date of the agreement amounted to $100.8 million. LionOre obtained the 40% interest in the Wildara Joint Venture, which includes the Thunderbox gold mine that it did not already own as well as a number of prospective gold and nickel properties.

A total of 1,270,000 stock options issued under the Employee Stock Option Plan were exercised during the year at an average exercise price of C$1.24 ($0.89) and 115,500 share purchase warrants were exercised at a price of C$2.00 ($1.48).

In 2002, the Company had two major equity issues and forced the conversion of two convertible debenture issues. In May 2002, the Company issued 27,500,000 shares at C$3.65 per share. The net proceeds of this issue, $60.2 million, were primarily used to fund the acquisition of Anglo American's 43.35% share of Tati Nickel. In December 2002, the Company issued 7,500,000 shares at C$4.00 per share, for net proceeds of $18.1 million. These proceeds were mainly used to repay a bank loan that funded the acquisition of the 20% of LionOre Nickel that brought the Company's ownership to 100%. Finally, the Company forced conversion on two convertible debenture issues during the year – the C$18.5 million ($12.0 million) 10% unsecured convertible debenture due May 2005, and the US$1.3 million 10% unsecured convertible debenture due July 2006, which resulted in the issuance of 7,708,327 shares and 1,136,572 shares, respectively.

Changes in non-cash working capital

Changes in non-cash working capital of $47.3 million in 2003 have significantly increased over the prior year as a result of increased operational activity including the building of inventory due to increased production as well as the increase in receivables from new mineral sales made at strong nickel prices.

Development of mine properties

Cash spent on development of mine properties of $10.9 million for the year ending December 31, 2003, was in relation to the Maggie Hays Nickel project. Cash spent on development of mine properties for the year ending December 31, 2002, related mainly to the Thunderbox gold mine, with smaller amounts attributable to the Emily Ann mine which began commercial production in February of 2002.

FINANCIAL REVIEW

Management's Discussion and Analysis

...nary of Quarterly Results and Selected Annual Information

Summary of Quarterly Results

($000s except per share amounts)	Three Months Ending 2003				2002			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Total revenue	$ 127,325	$ 52,856	$ 71,227	$ 41,515	$ 42,659	$ 7,711	$ 10,446	$ 2,119
Net earnings	$ 29,782	$ 8,088	$ 11,060	$ 9,148	$ 3,638	$ (427)	$ (636)	$ 101
Basic earnings per share	$ 0.16	$ 0.05	$ 0.07	$ 0.06	$ 0.02	$ 0.00	$ (0.01)	$ 0.00
Diluted earnings per share	$ 0.16	$ 0.05	$ 0.06	$ 0.06	$ 0.02	$ 0.00	$ (0.01)	$ 0.00

Fourth Quarter Results

For the three months ended December 31, 2003, LionOre earned $29.8 million on mineral sales of $127.3 million, compared to net income of $3.6 million on mineral sales of $42.4 million in the fourth quarter of the prior year. Operating earnings for the three months ended December 31, 2003, were $51.2 million, compared to $7.3 million for the quarter ended December 31, 2002.

Australia Nickel Operations

Fourth quarter nickel sales of $55.4 million represent almost two third's of the nickel sales for the year of $84.8 million. Sales in the fourth quarter of 2002 were $20.4 million. The significant increase in nickel sales was due to a number of factors, including a sharp rise in the price of nickel over the course of the past year from $3.22 per pound at the end of 2002 to $7.55 per pound by the end of 2003. Production at Emily Ann also significantly increased from 1,637 tonnes of payable nickel in the fourth quarter of 2002 to 1,878 tonnes in the fourth quarter of 2003. Furthermore there were no nickel sales from the Emily Ann operations in the third quarter of 2003 as a result of a 13 week strike at Inco's Sudbury operations. With the resolution of this strike toward the end of the third quarter, all of Emily Ann's stockpiled production from the third quarter, and most of its fourth quarter production, was sold in the fourth quarter of 2004. Consequently, sales of 3,796 tonnes of payable nickel made in the fourth quarter of 2003 were significantly greater than sales of 2,512 tonnes made in the fourth quarter of 2002.

The cash cost of production at the Emily Ann nickel mine in Australia was $2.60 per pound for the fourth quarter of 2003 (2002: Q4 – $1.93). This figure includes a US$0.20/lb adverse adjustment in respect of additional refining charges relating to third quarter production. Due to the Inco strike as mentioned above, the concentrate production was sold during the fourth quarter at nickel prices that were substantially higher than those in the third quarter. The additional cost included in the fourth quarter results from refining charges that have a price participation element.

Australia Gold Operations

Gold sales were $13.8 million in the fourth quarter, as compared to $2.6 million in the fourth quarter of 2002. The Thunderbox gold mine produced 39,498 ounces of gold during the fourth quarter of 2003 (2002: Q4 – 17,790 ounces). In 2002, the mine did not commence production until November and LionOre's share of the operations was 60% at that time. In the fourth quarter of 2003, the Company completed the merger with Dalrymple Resources NL and this resulted in LionOre recording 100% of the operating results from Thunderbox in November and December.

Thunderbox cash cost per ounce was $213 per ounce for the quarter ended December 31, 2003. The cash costs for the fourth quarter and year ended December 31, 2002, were $95 per ounce. This increase is a combination of the strong Australian dollar compared to the US dollar and also the increased costs associated with processing the harder ore at lower levels of the mine in the latter half of 2003.

Botswana Nickel Operations

Tati Nickel's earnings before non-controlling interest were $15.7 million for the quarter ended December 31, 2003. This compares to earnings of $0.2 million in the fourth quarter ended December 31, 2002. Tati nickel and copper sales were $52.5 million for the three months ended December 31, 2003 (2002: Q4 – $15.1 million). Sales of all other minerals were $3.9 million for the quarter (2002: Q4 – $3.4 million). As certain deliveries made in the first three quarters of 2003 were settled during the fourth quarter, a positive adjustment in respect of previous periods is included in the fourth quarter sales. The positive adjustment to nickel revenue in respect of the settlement of previous period sales was $6.0 million.

The concentrator at Tati performed exceptionally well during the fourth quarter. Metal production in the quarter surpassed previous achievements with significant improvements in nickel recovery.

Tati Nickel's cash cost for the quarter ended December 31, 2003, was $2.52 per pound. This compares to $2.12 in the same period of the prior year. The cash cost for the quarter ended December 31, 2003, is in line with expectations considering the continued appreciation of the Botswana pula throughout 2003 and the higher nickel price, with related refinery price participation.

Selected Annual Information

($000s except per share amounts)		December 31, 2003		December 3, 2002		December 31, 2001
Total revenue	$	292,924	$	62,838	$	870
Net earnings	$	58,078	$	2,676	$	(555)
Basic earnings per share	$	0.34	$	0.02	$	0.00
Fully diluted earnings per share	$	0.33	$	0.02	$	0.00
Total assets	$	619,768	$	342,293	$	111,203
Total long term liabilities	$	148,373	$	126,642	$	43,518

The Company has not declared dividends in the past three fiscal years.

The financial measures noted above have been significantly impacted by acquisitions made by the Company as well as by internal growth and development. In the fiscal year ended 2001, the Company did not have mining operations and the revenue was solely derived from the equity investment in Tati Nickel. The assets of the Company consisted largely of mineral exploration and development properties, including the Emily Ann property which was in the final stages of mine development.

The statement of operations changed considerably in 2002. The Company became a producer of nickel when Emily Ann began commercial production in the first quarter of 2002. The Company later became a producer of gold when the Thunderbox gold mine began commercial production in November of 2002. Combined, these Australian mining operations contributed $43.5 million in mineral sales and $6.3 million to net earnings before tax during 2002.

In 2002, the major change on the Company's balance sheet was caused by the acquisition of 43.35% and consequent control of Tati Nickel. Prior to the acquisition, which occurred in September of 2002, the Company owned 41.65% of Tati Nickel and accounted for the investment on an equity basis. From the date of acquisition the Company began consolidating the results of Tati Nickel, which had a pronounced impact on the balance sheet, increasing the net assets at the date of acquisition by $78.0 million. The purchase price of $75.9 million was funded by the issuance of share capital and by a $20 million loan. The net assets acquired consisted primarily of mineral properties, and plant and equipment, representing the reserves and recently constructed infrastructure at the Phoenix mine respectively. For accounting purposes, the Company had to take into consideration that a portion of the future amortization of the fair value of the net assets acquired would not be deductible for tax purposes and therefore was required to establish a future income tax liability to reflect this fact. The resulting future income tax liability of $19.5 million was also applied to increase the carrying value of property, plant and equipment and exploration properties. The amortization of the incremental value related to the tax liability will not have an effect on the statement of earnings, as the amortization will be directly offset by the future income tax credit in income.

The Tati acquisition had an effect in the statement of operations only for the fourth quarter of 2002, during which time the results of operations were consolidated. During this period Tati Nickel contributed $18.5 million in mineral sales and $0.6 million to net earnings.

In December of 2002, LionOre also acquired the minority interest in LionOre Australia (Nickel) Limited which was the Company's 80% controlled Australian public subsidiary. LionOre paid $14.1 million to complete the transaction.

Management's Discussion and Analysis

In 2003, the events of the previous year were evident in the results, as the Company experienced for the first time a full year of production from all of its mining operations.

Near the end of 2003, the Company completed a transaction that significantly impacted the Company's balance sheet and will affect the statement of earnings. On June 3, 2003, the Company announced that it entered into an agreement to merge with Dalrymple Resources NL. Dalrymple was LionOre's partner in the Wildara Joint Venture, which holds the Thunderbox gold mine and the nearby Waterloo and Amorac nickel deposits as well as a number of other exploration properties that are prospective for gold and nickel. The ownership structure of the Wildara JV prior to this transaction was LionOre 60% (operator) and Dalrymple (40%). The transaction was completed on October 30, 2003 and resulted in LionOre issuing 24,989,396 new shares to Dalrymple shareholders.

The purchase method of accounting was used to record the transaction, with LionOre as the acquirer. The fair value of the share compensation was $100.8 million and this amount plus minor expenses of acquisition of $0.1 million was applied to the fair values of the net assets acquired. A fair value of $25.2 million was attributed to the Thunderbox gold mine. The largest component of the compensation paid was allocated to the mineral exploration and development properties in the amount of $79.4 million as follows:

Wildara Gold	$48.7 million
Wildara Nickel	$14.1 million
Other	$16.6 million
	$79.4 million

Changes in Accounting Policies

The Company has had the following changes in accounting policies over the past three fiscal years as a result of changes in the applicable standards issued by the Canadian Institute of Chartered Accountants:

(a) In 2001, the Company adopted the use of the treasury stock method to calculate fully diluted earnings per share. The change was made on a retroactive basis; however, there was no change to the prior year's previously reported basic and fully diluted loss per share.

(b) Effective January 1, 2002, the Company implemented the revised CICA standard on foreign currency translation which required that foreign exchange gains and losses on long term monetary items be recorded on the statement of earnings as they occur. Previous to this date, the foreign exchange gains and losses on long term monetary items were deferred and amortized over the life of the related item. The standard was applied retroactively and the financial statements for 2001 were restated. At December 31, 2001, the deficit was increased by $0.7 million, the investment in Tati Nickel decreased by $1.0 million, the future income tax liability decreased by $0.2 million and the cumulative translation adjustment decreased by $0.3 million. For the year ended December 31, 2001, the share of earnings of Tati Nickel decreased by $1.3 million, future income taxes decreased by $0.2 million and foreign exchange loss decreased by $0.4 million, resulting in an increase in the net loss of $0.8 million.

(c) Effective January 1, 2002 the Company adopted the recommendations of the CICA with respect to stock-based compensation and other stock-based payments. The recommendations require that stock-based payments to non-employees be accounted for using a fair value based method of accounting. The recommendations encourage, but do not require, the use of a fair value based method to account for stock-based compensation to employees. The Company elected to continue not to record stock options issued to employees as compensation expense and to disclose pro-forma information on the fair value of stock compensation issued during the period in the notes to the financial statements. There was no effect on the financial position or statement of earnings from the implementation of this standard.

There were no changes in accounting policies outside of those changes mandated by a change in the CICA standard.

In 2004 there will be two major changes to the Company's accounting policies that will require certain retroactive adjustments to the Company's financial statements. The policy changes are in response to new standards being issued by the CICA. Both standards are effective for years beginning on or after January 1, 2004.

The first change is in respect of the Company's mine closure obligations. The Company will be required to follow the new CICA Handbook section 3100- Asset Retirement Obligations. Under this standard, the Company is required to record a liability for the future estimated costs of satisfying the mine closure obligations at the commencement of, or acquisition of, mining operations. The fair value for the mine closure provision would normally be the present value of the estimate of the future costs (cash flows) associated with mine closure as determined by mine closure plans or other reliable information. The liability for mine closure is recognized as an increase in the carrying amount of the related mineral property. The capital cost will be amortized as the mineral property is depleted and the liability will be accreted over the life of mine to the future value through a charge to income.

The current method of recording the provision for mine closure is to increase the liability over the life of mine by a charge to income for mine closure provisions. The new policy will be applied to LionOre's financial statements on a retroactive basis. The Company is in the process of establishing the present values for the closure provisions and at this point has not made the final determination of the amounts that will be recorded in the financial statements to effect the change in policy. While there is not expected to be a material effect on the retained deficit, the new method will likely change the assets and liabilities of the Company by a material amount.

The other change in accounting policy which will affect the financial statements in 2004 is in respect of the method the Company uses to account for stock based compensation. Currently the Company does not record the fair value of stock options issued to employees in the statement of earnings, but instead provides pro-forma information on the fair value of stock compensation and the effect on the Company's net earnings in the notes to the financial statements. Under the new CICA Handbook section 3870- Stock-based Compensation and Other Stock-based Payments, the Company will be required to expense the fair value of stock options in the financial statements. The policy will be applied retroactively. The fair value of stock based compensation issued to employees in 2003 was $0.8 million (2002- $0.2 million).

Critical Accounting Estimates

The application of certain accounting policies requires the Company to make estimates based on assumptions that may be uncertain at the time the accounting estimate is made. The Company has determined the following accounting estimates are critical and could have a material affect on the financial statements of the company if there is a change in estimate.

Depletion, Amortization and Depreciation of Property, Plant and Equipment

Property, plant and equipment comprise the largest component of the Company's assets and as such, the amortization of these assets has a significant effect on the Company's financial statements. Upon commencement of commercial production the Company amortizes the mineral property and mining equipment and other assets over the life of the mine based on the depletion of the mine's proven and probable reserves. In the case of mining equipment or other assets if the useful life of the asset is shorter than the life of the mine the asset is amortized over its expected useful life.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and the reliance on a number of assumptions. The estimate of the reserve may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

A change in the original estimate of reserves would result in a change in the rate of depletion and amortization of the related mining assets or could result in impairment of the mining assets resulting in a write down of the assets.

The effect of a change in the estimate of reserves would have a relatively greater effect on the amortization of mining assets at the Thunderbox mine and the Emily Ann mine because of their short mine lives. The short mine life results in a high rate of amortization and depreciation and mining assets may exist at these sites that have a useful life in excess of the life of the related mine. In the case of Emily Ann, the mining assets (plant and equipment) will be used in the processing of ore from the Maggie Hays mine, and as such the life of these assets has been extended past the current operating mine's life, which results in a decelerated rate of depreciation and amortization for these assets. The Phoenix mine in Botswana, which has a longer mine life, would be less affected by a change in the reserve estimate.

FINANCIAL REVIEW

Management's Discussion and Analysis

Valuation of Exploration and Development Properties

When funds are expended for exploration on the Company's exploration properties the Company makes a determination as to the likelihood that the property explored will result in the eventual discovery of a mineable reserve. Where the determination is made that the potential for a future mineable reserve exists, from which the future cash flows will exceed the amount expended, the company capitalizes the expenditures to the value of the property. The Company may periodically revise its valuation based on additional exploration results and determine that the fair value of the property on the balance sheet is impaired. When such a change in estimate is made there may be a material effect on the balance sheet and statement of earnings.

The Company, from time to time, acquires exploration and development properties. When a number of properties are acquired in a portfolio, the Company must make a determination of the fair value attributable to each of the properties within the total portfolio. When the Company conducts further exploration on acquired properties it may determine that certain of the properties do not support the fair values applied at the time of acquisition. If such a determination is made, the property is written down, and could have a material effect on the balance sheet and statement of earnings. In 2003 the Company acquired exploration and development properties in the transaction with Dalrymple Resources NL (previously discussed in the "Summary of Quarterly Results and Selected Annual Information"). The attribution of fair values to the properties acquired will be reviewed on a regular basis as the properties are further evaluated and explored and to the extent that future impairment is determined a write down in future periods may be required.

Mine Closure Provisions

The Company has obligations for site restoration and decommissioning related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change resulting from amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

Because the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording mine closure provisions is to accrue for closure provisions over the life of the mine as a charge to income. The accrual is based on the future estimated cash outlay to satisfy the mine closure obligations. Beginning in 2004, the Company will adopt the new CICA accounting standard "Section 3100- Asset Retirement Obligations", which will affect the accounting for mine closure provisions. The Company will reverse the current provisions and establish new provisions based on the new CICA recommendations. The new standards require that the Company establish the provision for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the capital cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to income. This new method of recording the mine closure provisions will not change the amount of the closure provision to be eventually recognized, but will change the timing of the recognition of the amounts and how the mine closure costs are presented in the statement of earnings. Under the current method of accounting for mine closure provisions, the costs are a component of operating costs. Under the new method of accounting the charges will be shown as a component of the depreciation of the related capital asset and as an accretion charge.

Income Taxes

The determination of the ability of the Company to utilize tax loss carryforwards to offset future income tax payable requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether the Company is "more likely than not" able to benefit from the prior losses. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses. In the event that it is determined that certain of the losses are not likely to be utilized, a valuation reserve would have to be recorded against the loss carryforwards through a charge to income. Conversely, where amounts that are now considered not likely to be utilized to reduce future tax payable are determined to be likely to be utilized in the future, the valuation allowances against these losses would be removed by recording a future income tax recovery in the statement of operations.

As at December 31, 2003, the Company has estimated a non-capital loss carry-forward in Canada of approximately $15.4 million, which can be applied to reduce future Canadian income taxes payable and will expire in 2004 to 2010. The tax benefit of these loss carry-forwards has not been recognized in these financial statements. LionOre may not be able to benefit from these loss carryforwards and is uncertain whether they will be recognized in future.

Also at December 31, 2003, the Company has estimated Australian tax loss carry forward in the amount of A$25.5 million which is available to offset taxes payable in future periods. The tax benefit of these loss carry forwards are recognized in the financial statements as management has determined that the benefit is more likely than not to be realized.

As a result of recently announced changes to the Australian corporate tax regime, the Company will likely make an election to adopt a consolidated group tax reporting basis in Australia. The effect of such an election could be a revision to the income tax basis of certain Australian assets and liabilities. The Company is reviewing with its advisors the most tax efficient basis and timing for such an election. The effect of such an election, if any, will be recorded in the period it becomes determinable.

Nickel Hedging Program

In Australia, the Company has hedged future production as required by financing agreements for the related mining properties.

Nickel Positions

Nickel hedges will be extinguished by the end of the third quarter in 2004 and represent less than 4% of LionOre's current nickel reserves.

	Nickel Delivery Obligations (in tonnes)		
	<1 year	**after 1 year**	**Total**
U.S. dollar denominated hedges	420	–	420
Australian dollar denominated hedges	1,656	–	1,656
Total	**2,076**	–	**2,076**

The prices set on delivery into the remaining $US denominated nickel contracts range between $6,600 and $9,230 per tonne. The prices set on delivery into the Australian dollar denominated contracts range between approximately A$11,215/t and A$12,340/t ($8,434/t and $9,280/t) as at December 31, 2003. The Company is obliged to deliver into nickel hedges on the dates as outlined in the schedule above. At nickel prices between $6.00 and $7.00 per pound the Company would experience a hedging loss of $10.2 million- $14.8 million in 2004. Two thirds of the nickel hedges are due in the first quarter of 2004.

Gold Hedging Program

Gold hedges represent approximately 53% of the current gold reserves, and will be delivered over the period to July 2007.

	Gold Delivery Obligations (in ounces)			
	<1 year	**1-3 years**	**after 3 years**	**Total**
LionOre Australia	45,163	139,658	–	184,821
Dalrymple	29,610	87,760	–	117,370
Total	**74,773**	**227,418**	–	**302,191**

The prices set on delivery into these gold contracts are all approximately A$568 which is equivalent to US$427 as at December 31, 2003. The Company has discretion to deliver into gold hedges and intends to do so only when in-the-money. At the December 31, 2003 price of gold of A$552 per ounce, the Company would earn A$4.8 million given the scheduled hedge deliveries.

Funding Requirements

At December 31, 2003, the Company was in a strong financial position, with cash balances of $45.2 million. Debt repayments are expected to be made as scheduled. The Company may opt to accelerate repayments where loan terms are flexible such that they allow repayment without penalty. At this time no material non-scheduled debt repayments are planned.

The company currently has a mix of lower-interest rate U.S. dollar denominated debt, higher-interest rate, Australian dollar denominated debt, and some very high interest Pula and Canadian dollar denominated debt.

The highest cost debt is the Canadian dollar denominated 12% unsecured debentures. In addition to the 12% coupon, the Company must recognize as interest expense the accounting, non-cash charge related to the cost of the associated Share Purchase Warrants (See Note 13 in the Notes to the Annual Consolidated Financial Statements) and the non-cash amortization of financing costs, which yield an effective rate of interest of over 18%. These debentures will be fully repaid in June 2004.

The outstanding Australian dollar denominated debt of $27.8 million has effective interest rates in the ranges of 6.69% – 8.50%, but also has a very rapid repayment rate with the balance at December 31, 2004, projected to be approximately $14.4 million. In December 2003 A$5.0 million of the Australian debt, with an interest payable at the Australian Bank Bill Rate plus 3.65% (9.14% at the time of repayment), was repaid and the Company will consider that option to further reduce its Australian dollar denominated debt over the course of the next twelve months.

Tati Nickel's short term cash advance facility (See Note 11 in the Notes to the Consolidated Annual Financial Statements) of $4.0 million is pula denominated and bears a high rate of interest at 14.75%. The Company expects that this be paid down substantially in the first quarter of 2004.

The Company is funding the development of the Maggie Hays nickel project with cash generated from other Australian operations. On March 4, 2003, the Company exercised its option to acquire the remaining 69% of the Maggie Hays deposit it did not already own. The Company also acquired 100% of the surrounding Lake Johnston exploration tenements. The cost of the option was A$16.7 million, with A$6 million paid in 2003, and the remainder to be paid over the next 5 years. The Maggie Hays mine development, including an upgrade to the Emily Ann processing plant to accommodate the ore from Maggie Hays, is expected to cost approximately A$31 million ($23.3 million).

The $10 million Activox demonstration plant project is being funded through a combination of debt and internally generated cash. A U.S. dollar denominated $7.0 million debt facility arranged with Rand Merchant Bank was drawn on in December 2003.

In addition to the equity injection made in March of 2003, Inco Limited agreed to fund exploration on LionOre's Lake Johnston tenements in Western Australia (which host LionOre's Emily Ann and Maggie Hays nickel sulphide deposits) and LionOre's nearby Forrestania tenements. Inco Limited has agreed to sole fund A$15.0 million ($11.3 million) in exploration expenditures over approximately 4 years for this regional nickel sulphide exploration program.

In other areas, exploration commitments have been made, as previously discussed under other long term investments, to Thundelarra Explorations to fund exploration activities on tenements in the East Kimberley region in order to earn a 60% interest in those tenements. In 2004, approximately A$1.3 million ($1.0 million) will be spent in this area.

Contractual Obligations and Commitments

	Payments Due by Period				
($000s)	**<1 year**	**1-3 years**	**3-5 years**	**After 5 years**	**Total**
Long term debt	$ 35,428	$ 30,327	$ 9,707	$ 1,503	$ 76,965
Reclamation and site closure	–	–	–	6,913	6,913
Operating leases	520	841	–	–	1,361
Mining operations, supplies inventories and consumables	58,617	123,768	46	–	182,431
Exploration	3,977	1,500	750	–	6,227
Power contracts	2,971	–	–	–	2,971
Capital expenditures	10,152	2,888	2,550	2,438	18,028
Total contractual obligations	**$ 111,665**	**$ 159,324**	**$ 13,053**	**$ 10,854**	**$ 294,896**

Long-term debt

Except in the case of breach of the terms and conditions of its debt agreements, the Company does not hold any debt subject to accelerated payment clauses.

Reclamation and site closure costs

The amounts included in the table represent our present legal obligations for costs at our existing operating mines in Australia and Botswana. The Company is required to post a performance bond for its estimated Australian reclamation and closure costs.

Power contracts

LionOre has entered into a contract with Kalgoorlie Power Systems to provide power for its Australian operations in the region.

Capital expenditures

Capital expenditures in the table include payments required to maintain title and rights to mine at our mineral properties. In the event that the Company takes the decision to abandon a property or discontinue mining operations, the Company is not legally obligated to make payments relating to those properties. Amounts also include those expenditures required to sustain production at the Company's mines.

Sensitivity Analysis

Net income and earnings per share (EPS) are affected by certain external factors including fluctuations in metal prices and changes in exchange rates between the Botswana pula, the Australian dollar, and the US dollar.

The following table illustrates the sensitivity of the Company's forecasted 2004 net income to changes in key metal prices and foreign exchange rates:

($000s)

Sensitivity	**Change in Sensitivity**	**Effect on Net Income**	**Effect on EPS**
Price of gold	US $10/ounce	$ 1,080*	$ 0.006
Price of nickel	US $0.25/pound	$ 7,230	$ 0.042
$US/$A exchange rate	10% movement	$ 6,864	$ 0.040
$US/Pula exchange rate	10% movement	$ 6,495	$ 0.038

* *This amount does not include the effect of gold hedges described in this document under "Gold Hedging Program".*

Risk Factors

Competition

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other mining companies, many of which have greater financial resources than the Company, for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

Mineral Prices

Nickel and gold prices are two of LionOre's key performance drivers and fluctuations in the prices of these commodities can have a dramatic effect on the results of operations. Prices fluctuate widely and are affected by numerous factors beyond the Company's control. The prices of metals are influenced by supply and demand, exchange rates, inflation rates, changes in global economies, and political, social and other factors. The supply of nickel, gold and other metals consists of a combination of new mine production and existing stocks held by governments, producers and consumers.

If the market prices for nickel, gold or other metals fall below the Company's full production costs and remain at such levels for any sustained period of time, the Company may, depending on hedging practices, experience losses and may determine to discontinue mining operations or development of a project or mining at one or more of its properties. If the price of nickel or gold should drop significantly, the economic prospects of the mines and projects in which the Company has an interest could be significantly reduced or rendered uneconomic.

Nickel and gold prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of nickel, gold and other metals are produced, a profitable market will continue to exist for them.

The nickel market was very strong in 2003, with prices more than doubling during the year. At December 31, 2002 the price of nickel was $3.22 per pound. By December 31, 2003 this price had risen to $7.55. At the date of this MD&A, the price of nickel is $5.87. This strength in the market is expected to be sustained, with strong demand driven by the growth in stainless steel production in China and a strengthening global economy, particularly in the United States, Europe and Asia. This overall positive outlook in the coming year is expected to increase demand for base metals. There is a forecasted supply shortage for nickel, most pronounced in 2004 and 2005 as demand grows with few new sources of supply being brought into production. The supply shortage is forecasted to abate somewhat in 2006, when Inco's Goro and Voisey's Bay projects are scheduled to begin production. Demand, however, should remain strong. LionOre is well positioned to benefit from market conditions in the next two to three years, with continued strong production from the Emily Ann and Tati nickel mines and new production from the Maggie Hays deposit which is scheduled to begin production in late 2004.

The gold market has also seen a rise in prices over the past year, from $347.80 at the end of 2002 to $409.25 at the end of 2003. In respect of gold prices, the market forces are much more complex and, as such, the future expectations for gold prices are much more difficult to predict. Unlike the nickel market which is largely driven by supply and demand, gold is affected by the substantial amount of non-producer speculation in the buying and selling of gold. LionOre has partially hedged against fluctuations in the price of gold as a result of Thunderbox financing requirements rather than by Company policy. These hedges are denominated in Australian dollars, as the associated costs to produce gold are incurred in Australian dollars. This hedging program has been beneficial to LionOre, as the Company has been able to deliver into hedges at above market prices in light of the strength of the Australian dollar.

LionOre has no plans to hedge additional gold or nickel production in 2004.

Additional Funding Requirements

The Company has limited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfill its obligations under any applicable agreements. Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of the Company's properties.

LionOre acknowledges that funding risks exist, but as disclosed in the Funding Requirements section above, the Company is confident that in the current climate of strong commodity prices and strong Company performance and cash flow, funding requirements should not pose a significant hurdle to the Company's growth plans.

Exploration, Development and Operating Risks

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines.

Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in the operation of mines and the conduct of exploration programs.

The Company has relied on and may continue to rely upon consultants and others for exploration and development expertise. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

The economics of developing nickel, gold and other mineral properties are affected by many factors including the cost of operations, variations in the grade of ore mined and metals recovered, fluctuations in metal markets, costs of processing equipment, continuing access to smelter facilities on acceptable terms and other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. There is no assurance that the Company's mineral exploration, development and acquisition activities will be successful.

Uninsurable Risks

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences, and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political or environmental risks.

Ore Reserve and Resource Estimates

The Company's reported mineral reserves and resources are only estimates. No assurance can be given that the estimated mineral reserves and resources will be recovered or that they will be recovered at the rates estimated. Mineral reserve and resource estimates are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Mineral reserve and resource estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain mineral reserves and resources uneconomic and may ultimately result in a restatement of reserves and/or resources. Moreover, short-term operating factors relating to the mineral reserves and resources, such as the need for sequential development of ore bodies and the processing of new or different ore grades, may adversely affect the Company's profitability in any particular accounting period.

FINANCIAL REVIEW

Management's Discussion and Analysis

Dependence on Limited Mining Properties and Smelting Facilities

The Company's operations at the Phoenix mine (in Botswana) and the Emily Ann mine (in Australia) and Thunderbox Mine (in Australia) each account for a substantial portion of the Company's mineral production and revenue. Any adverse development affecting the Phoenix mine, the Emily Ann mine, or the Thunderbox mine, could have a material adverse effect on the Company's financial performance and results of operations.

All of the concentrate from Tati Nickel is processed at the BCL smelter which has in the past experienced unscheduled shutdowns of varying duration due to equipment failure. Alternative processing facilities are not readily available. Accordingly, if for any reason the BCL smelter is not available for an extended period, the Company could suffer material interruptions in cash flow. The Company however does maintain business interruption insurance for its operations, and is expecting an insurance settlement for the shutdown of the BCL smelter during the first quarter of 2003. The amount of the expected settlement has not yet been determined.

In June and July of 2004, BCL has planned a fifty-five day smelter shutdown. During this time BCL will be effecting expected end of campaign capital repairs to the flash furnace (reaction shaft shell, roof, hearth and refractory re bricking) the electric furnace, precipitators and boiler. After the repairs it is anticipated that the smelter will not require further major repairs for another 5- 7 year campaign.

Foreign Countries and Regulatory Requirements

The Company's operations in Australia and Botswana are subject to various laws and environmental regulations. The implementation of new or the modification of existing laws and regulations affecting the mining and metals industry could have a material adverse impact on the Company.

The properties in which the Company has an interest through its ownership interest in Tati Nickel are located in Botswana. Consequently the Company is subject to certain risks, including, currency fluctuations and possible political instability in that country which may result in the impairment or loss of mineral concessions or other mineral rights, and mineral exploration and mining activities may be affected to varying degrees by political and social instability and government regulations relating to the mining industry. Botswana is bordered by South Africa, Zimbabwe, Zambia, Namibia and Angola; political instability in such neighboring countries could have an impact on political, social and economic conditions in Botswana. Any changes in regulations or shifts in political, social or economic conditions are beyond the control of the Company and may adversely affect its business. Operations may be affected by government restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety. Africa's status as a developing continent may make it more difficult for the Company to obtain any required exploration, development and production financing for its projects.

Botswana is a democratically ruled country with a history of political stability. Elections occur every five years. Since 1966, when Botswana became independent, there have been three changes in the President, which have occurred peacefully, following the democratic principles of Botswana's constitution. Thirteen political parties were registered at the time of the last election in 1998.

In the 2003-2004 World Economic Forum rankings, Botswana is ranked as the number one country in Africa in terms of global competitiveness and good governance. Botswana's position in the global competitiveness rankings places it ahead of much of Europe, Asia and Latin America. The economy is based on free market principles. Botswana's government has historically been fiscally prudent, resulting in its being the most creditworthy economy in Africa, as rated by Standard & Poors and Moodys.

Risks in dealing with HIV/AIDS

AIDS is a critical problem in Botswana, but it is also the only African country with a national program to combat the disease. Under the leadership of President Festus G. Mogae, Botswana initiated a program in 2001 to distribute free anti-retroviral drugs to all of its HIV-infected citizens. Other AIDS-related initiatives include free voluntary AIDS testing for anyone who is treated at a health clinic, confidential counselling for HIV-positive citizens, a $100 million grant from Merck and Co., Inc. and the Bill and Melinda Gates Foundation to support Botswana's treatment program, and a $10 million initiative by Bristol-Myers Squibb to treat children with paediatric HIV/AIDS.

In June 2000 the United Nations Program on HIV/AIDS (UNAIDS) released the 1999 Global HIV Prevalence Report. It concluded that 35.8% of all working-aged adults in Botswana were infected with HIV. The prevalence figures for 2001, 2002 and 2003 were 36.2%, 35.4% and 37.4% respectively.

Botswana is one of the most heavily affected of the countries in southern Africa, where life expectancy has dropped to between 40 and 50 years due to HIV/AIDS.

An impact cost study performed in Botswana in 2001 indicated that the direct and indirect costs associated with HIV/AIDS without medical intervention amount to an average cost of 10.7% of salaries. In comparison, if a fully sponsored treatment protocol is implemented the benefits will exceed the costs when 3 years of additional productivity has been gained per HIV-positive patient. It has been our experience at Tati that this addition to life/productivity is readily achievable by those on the required treatment who adhere to the protocol. With the dramatic reduction of anti-retroviral medication costs in southern Africa over the past few years, the additional productivity required for the benefits to exceed the costs has reduced to between 1 and 2 years.

In developed countries the life expectancy and productivity of HIV/AIDS patients has been elevated to the same levels as other chronic diseases with the correct medical intervention and patient commitment. The pharmaceutical advances in anti-retroviral (ARV) treatment resulted in turning HIV/AIDS infection from a rapidly fatal disease into a chronic manageable disease. Botswana has implemented intervention measures as discussed above that are unequalled in the developing countries.

In addition to the services provided by the Government of Botswana, and in anticipation of the potential future impact of HIV/AIDS on Tati and its employees, the Tati Nickel operation implemented a comprehensive HIV/AIDS Intervention Strategy in 2001.

The mission of Tati is to:

- Reduce the threat of HIV/AIDS to its business and the community
- Responsibly manage its human and financial resources
- Accept its corporate and social responsibilities

The objective of the HIV/AIDS initiative is to maintain the status of HIV-negative employees and extend the life, and quality of life of HIV-positive employees. The responsible, caring and compassionate management of the impact of HIV/AIDS will be achieved through a focused intervention program that meets the challenges of the pandemic and standards of HIV/AIDS care treatment equal to that of the developed world.

The program is focused on the reduction of the number of new HIV infections through HIV/AIDS awareness, peer education and condom distribution initiatives and the reduction of the AIDS related deaths with the promotion of HIV testing and ARV treatment.

Tati has developed a set of governing principles to administer its HIV/AIDS program as follows:

- Employees will be encouraged to confirm their HIV status with regular voluntary HIV testing
- Employees will be motivated to disclose their HIV status to the Chief Medical Officer for Company support
- Employees will be employed and promoted irrespective of their HIV status
- The Company will sponsor an AIDS Treatment Protocol with Highly Active Anti-Retroviral Medication to disclosed and confirmed HIV-positive employees
- The Company will not tolerate unfair discrimination towards HIV-positive employees in the workplace
- The Company will sustain an HIV/AIDS awareness campaign with continued HIV training and compulsory annual HIV counselling of all employees
- The Company is committed to the containment of the HIV epidemic and the prevention of any new HIV infections by encouraging the use of condoms
- The Company will promote a responsible life style of employees with the free supply and distribution of condoms in strategic areas in the workplace
- The Company will adhere to strict confidentiality of the HIV status of employees

FINANCIAL REVIEW

Management's Discussion and Analysis

HIV/AIDS education and counselling are performed on a continuous basis by clinic staff at Tati Nickel to increase awareness among employees. Since 2001, a total of 144 employees have been counselled for HIV testing and 95 gave consent to be tested, equating to a counselling testing rate of 66%. At this time, 61 employees that tested HIV-positive are employed. Only 35 of this group need to be on ARV treatment and 22 of these continue to strictly adhere to the treatment protocol. Defaulting patients are continuously counselled on the benefits of treatment intervention and encouraged to enrol in the initiative.

During 2003, 27,000 condoms were distributed free of charge. The number of sexually transmitted diseases being treated in the clinic has been reduced by 42% over a 2-year period.

Tati experienced 98 diagnosed cases of sexually transmitted diseases in 2003, 112 cases in 2002, and 170 cases in 2001. Although a significant reduction in the number of sexually transmitted diseases (STDs) has been recorded, it still remains high. The relationship between STDs and HIV/AIDS is well recorded and remains a major concern. Steps to reduce the numbers further will continue to be implemented in 2004.

The number of patients counselled (2003 – 46, 2002 – 52, 2001 – 46), tested (2003 – 29, 2002 – 36, 2001 – 30) and diagnosed with HIV (2003 – 20, 2002 – 33, 2001 – 26) indicates a lack of employee understanding of the major advantage of early diagnosis of HIV, knowing one's HIV status and the impact and importance of ARV. This will also be addressed through peer education in 2004.

An analysis of sick leave of employees remains within the accepted norm for industry in Southern Africa. The sick leave analysis includes all diseases, and is not only applicable to HIV/AIDS. The sick leave absenteeism rate correlates to the productivity loss due to sick leave. An indicator of the productivity loss is the number of days sick leave taken versus the total number of potential working days. The monthly average for 2003 of 0.8% compared very favourably with 2002 of 1.2%, and the norm for the industry of <2.5%.

With a current workforce of 536 at Tati Nickel, the deaths in service for 2003 were 0.9% (4 people) compared to 2002 and 2001 at 0.5% (3 people) and 0.3% (2 people) respectively. These are not only AIDS related deaths, but include all medical conditions.

Medical aid is compulsory and fully sponsored by Tati Nickel for all employees with no extra costs being incurred when patients are admitted and treated in hospital. The costs incurred by Tati Nickel that are directly or indirectly linked to HIV/AIDS (expressed as a percentage of the total monthly salary costs) are as follows: HIV/AIDS testing and ARV treatment initiative 0.48%, medical aid contribution 4%, condoms 0.1%. Tati's total expenditure on the HIV/AIDS intervention program was less than $0.1 million, in 2003. While this amount is not a large component of overall employee compensation it should be noted that 2003 expenditures were 28% greater than the previous year.

The Company is proud of Tati's efforts to combat AIDS and educate its workforce, and is hopeful that Tati will achieve greater success in encouraging its workforce to use condoms, get tested for HIV, and participate in Tati's comprehensive ARV treatment program sponsored by the Company.

Environmental Regulation and Liability

The Company's activities are subject to laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment. Environment laws may change and make the mining and processing of ore uneconomic, or result in significant environmental or reclamation costs. Environmental legislation provides for restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties or the suspension or closure of mining operations. In addition, certain types of operations require the submission of environmental impact statements and approval thereof by government authorities.

Environmental legislation is evolving in a manner that may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. Permits from a variety of regulatory authorities are required for many aspects of mine development, operation and reclamation. Future legislation and regulations could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted. In the context of environmental permits, including the approval of reclamation plans, the Company must comply with standards and laws and regulations which may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. The Company does not maintain environmental liability insurance.

LionOre operates with the highest standards in respect of the environment and has a strong commitment to ensure that world class environmental standards are fully integrated into the construction, commissioning and operation of the Company's mining projects.

LionOre carries out extensive research and planning to ensure that environmental issues are properly addressed. The Company has a comprehensive system for monitoring environmental issues.

The company has received awards for environmental diligence from the Western Australia Department of Mines (Winner – Golden Gecko Award for Environmental Excellence, in 2002) and the Western Australia Department of the Environment (Winner – Corporate/Business Leading by Example, 2003).

Currency Risks

The Company's revenue from operations is received in United States dollars while most of its operating expenses will be incurred in Botswana Pula and Australian dollars. Accordingly, foreign currency fluctuations may adversely affect the Company's financial position and operating results. The Company does not currently engage in foreign currency hedging activities for regularly occurring operational transactions.

Effects of Inflation on Results of Operations

A significant portion of the Company's operations are located in Botswana which has historically experienced relatively high rates of inflation. Since LionOre is unable to control the market price at which it sells the minerals it produces (except to the extent that it enters into forward sales contracts), it is possible that significantly higher inflation in the future in Botswana, without a concurrent devaluation of the local currency against the U.S. dollar or an increase in the price of such minerals, could have a material adverse effect upon LionOre's results of operations and financial condition. Inflation in Botswana has fluctuated between 6% and 9% in recent years.

No Assurance of Titles or Boundaries

The Company's interest in the properties in Botswana is comprised of a concession agreement between Tati Nickel and the GRB. The Company has not obtained title opinions with respect to the subject properties and, accordingly, no assurances can be given that there are no title defects affecting such properties. Title to the Company's properties may be challenged or impugned, and title insurance is generally not available. The Company's mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Native Title and Aboriginal Heritage Issues

Native title claims and Aboriginal heritage issues may affect the ability of LionOre and its Australian subsidiaries to pursue exploration, development and mining on their Australian properties. The mining tenements held by LionOre's Australian subsidiaries in Western Australia are subject to a number of registered and unregistered native title claims under the Native Title Act 1993 (Commonwealth) as amended ("NTA"). The NTA provides for native title claims to be filed in the Federal Court of Australia and, if a claim satisfies certain threshold requirements, to be registered by the National Native Title Tribunal pending the ultimate determination of the claim by the Federal Court. The NTA also provides for the Australian States and Territories to validate certain titles and tenements which may have been invalid by reason of the existence of native title and also establishes procedures which must be followed before actions which affect native title rights are undertaken, such as the grant of mining leases and other tenements. In the case of applications for mining leases, the procedure involves a period of negotiation with the registered native title claimants/holders and, if agreement cannot be reached, an arbitrated decision by the National Native Title Tribunal. Renewals of mining tenements and applications for exploration licenses may be exempted from this process in some circumstances. Registered native title claimants/holders also have the right to object to infrastructure titles (such as for power lines and pipelines) in which event a process of consultation and independent determination applies.

Management's Discussion and Analysis

There is considerable complexity and uncertainty concerning the operation of native title laws in Australia. Most of the Emily Ann and Thunderbox mining leases were granted without undertaking the NTA procedures either because of State government policy at the time or because the view was taken, based on the precedent of the Full Federal Court of Australia decision in Western Australia v. Ward [2000] 170 ALR 159 ("Miriuwung Gajerrong") that any native title rights in the relevant areas had been extinguished by previous land dealings. The Miriuwung Gajerrong decision was appealed to the High Court of Australia which in August 2002 reversed aspects of the Full Federal Court decision in relation to extinguishment, thereby raising questions about the validity of mining tenements granted under the previous government policy. In the circumstances, the possible effect of the native title claims upon the mining tenements and in relation to native title compensation is not likely to be ascertained until the various native title claims affecting LionOre's Australian subsidiaries' mining tenements, particularly the Thunderbox and Emily Ann tenements, are decided by the Federal Court and determinations are made as to whether native title exists in the areas.

The various native title claims affecting the Australian properties including the Emily Ann and Thunderbox mines will be progressively heard by the Federal Court to decide whether native title exists in the areas. The hearing of the claims affecting the Thunderbox tenements commenced in February 2002 and is likely to continue well into 2004. However, in late 2001, LionOre's Australian subsidiaries negotiated a compensation agreement with three registered native title claim groups in relation to the Thunderbox mine thereby reducing the risk of any material adverse consequence arising from their native title claims, although the agreement did not include unregistered native title claimants.

In addition, in Western Australia, Aboriginal sites of ethnographic and archaeological significance are protected under the Aboriginal Heritage Act 1972 (Western Australia). Any such sites must be avoided or consent must be obtained from the relevant State Minister to use the area for development purposes. The location of Aboriginal ethnographic sites is generally known only to the Aboriginal people who have a traditional association with and who may speak for the relevant area. Ethnographic and archaeological surveys have been undertaken in relation to the Emily Ann and Thunderbox mine sites and infrastructure areas and although some Aboriginal sites have been identified in the vicinity of the projects, these are not likely to materially interfere with mining operations. However, difficulties have been experienced in completing an ethnographic survey with one native title claim group in relation to the Thunderbox mine (whose claim has not yet been registered under the NTA). As mineral exploration and further Aboriginal site surveys are carried out additional sites may be identified. If any Aboriginal heritage sites were to be affected by mining operations, it would be possible to apply for Ministerial consent to use those areas. An established statutory process exists for this purpose although whether or not consent is given is a matter of Ministerial discretion. A required consent was obtained in relation to a site at the Emily Ann project.

The resolution of native title and Aboriginal heritage issues is an integral part of exploration and mining operations in Western Australia and LionOre's Australian subsidiaries are committed to managing the issues effectively. However, in view of the legal and factual uncertainties, no assurance can be given that material adverse consequences will not arise in connection with native title and Aboriginal heritage issues.

Key Personnel

The Company is depending on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Company. The Company does not have key person insurance on these individuals.

r more information about LionOre:

In addition to the Company's website, www.lionore.com, readers are encouraged to view the Company's Annual Information Form and other public regulatory filings. These can be found on SEDAR at www.sedar.com. Public filings may also be accessed through the Australian Stock Exchange website, www.asx.com.au and the London Stock Exchange website, www.londonstockexchange.com.

Financial Review

Auditors' Report and Consolidated Financial Statements of Lionore Mining International Ltd

December 31, 2003 and 2002

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002 (expressed in thousands of US Dollars)

	2003	2002
ASSETS		
CURRENT		
Cash and cash equivalents	$ 35,256	$ 21,838
Accounts receivable (Note 5)	96,476	33,028
Inventories (Note 6)	11,596	4,190
Other	895	3,258
	144,223	62,314
Restricted cash (Note 4)	9,907	7,500
Property, plant and equipment (Note 7)	295,180	228,619
Mineral exploration and development properties (Note 8)	163,951	41,631
Other long-term investments and assets (Note 9)	6,507	2,229
	$ 619,768	$ 342,293
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 36,534	$ 22,972
Short-term financing (Note 10)	3,950	6,564
Current portion of long-term debt (Note 11)	35,428	26,838
	75,912	56,374
Long-term debt (Note 11)	41,537	75,127
Mine closure provisions	6,914	2,840
Other (Note 8 (a))	7,333	–
Non-controlling interest	15,166	7,598
Future income tax liability (Note 12)	77,423	41,077
	224,285	183,016
SHAREHOLDERS' EQUITY		
Share capital (Note 13)		
Authorized		
Unlimited number of common shares without nominal or par value		
Unlimited number of preferred shares issuable in series		
Issued		
194,077,600 common shares (2002 – 163,702,704)	355,020	237,408
Share purchase warrants (Note 13(c))	764	852
Deficit	(25,323)	(83,401)
Cumulative translation adjustment (Note 14)	65,022	4,418
	395,483	159,277
	$ 619,768	$ 342,293

Commitments and contingencies (notes 19 and 20)

See accompanying Notes to the Consolidated Financial Statements

APPROVED BY THE BOARD

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

*Years Ended December 31, 2003 and 2002 (expressed in thousands of US Dollars)**

	2003	2002
REVENUES		
Mineral sales (Note 15)	$ 292,818	$ 61,975
Other	106	863
	292,924	62,838
EXPENSES		
Operating costs	146,837	39,338
DEPRECIATION AND AMORTIZATION	35,885	10,316
General and administrative	9,140	6,406
Other	77	459
	191,939	56,519
OPERATING EARNINGS	100,985	6,319
Foreign exchange loss	(7,468)	(470)
Gain on sale of marketable securities	2,936	464
Interest expense	(7,724)	(4,555)
Interest and investment income	1,540	1,454
Provision for disputed stamp duty (Note 20(b))	–	(1,310)
Share of earnings of Tati Nickel Mining Company (Note 3(b))	–	536
NET EARNINGS BEFORE TAXATION AND NON-CONTROLLING INTEREST	90,269	2,438
Future income tax (expense) recovery (Note 12)	(26,753)	1,457
NET EARNINGS BEFORE NON-CONTROLLING INTEREST	63,516	3,895
Non-controlling interest	(5,438)	(1,219)
NET EARNINGS	58,078	2,676
DEFICIT, BEGINNING OF YEAR	(83,401)	(85,643)
Accretion of equity component of convertible debentures	–	(434)
DEFICIT, END OF YEAR	$ (25,323)	$ (83,401)
Basic earnings per share	$ 0.34	$ 0.02
Diluted earnings per share	$ 0.33	$ 0.02
Weighted average number of shares outstanding	170,932,636	134,310,586

*Except for per share amounts

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2003 and 2002 (expressed in thousands of US Dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 58,078	$ 2,676
Items not involving cash:		
Depreciation and amortization	35,885	10,316
Future income tax (recovery) expense	25,331	(1,457)
Gain on marketable securities	(2,936)	(464)
Non-controlling interest	5,438	1,219
Provision for disputed tax assessment (Note 20(b))	–	1,310
Share of earnings of Tati Nickel Mining Company	–	(536)
Write off of exploration and development properties	412	418
Other	(4,617)	(484)
Changes in non-cash working capital (Note 17(a))	(47,343)	(7,767)
	70,248	5,231
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of minority interest in LionOre Australia (Nickel) (Note 3(c))	–	(14,053)
Acquisition of Tati Nickel Mining Company, less cash acquired (Note 3(b))	–	(77,779)
Cash acquired from Dalrymple (Note 3(a))	4,168	–
Development of mine properties	(10,917)	(21,191)
Exploration (Note 17(d))	(6,921)	(3,832)
(Investment in) proceeds from property, plant and equipment	(19,717)	145
Net proceeds from investments	1,727	457
Other	760	123
	(30,900)	(116,130)
CASH FLOWS FROM FINANCING ACTIVITES		
Proceeds from the issue of share capital	16,682	78,566
Proceeds of borrowings	7,000	53,863
Repayment of borrowings	(52,888)	(16,263)
Other	(2,842)	(14)
	(32,048)	116,152
Effect of exchange rates on cash and cash equivalents	6,118	1,842
INCREASE IN CASH AND CASH EQUIVALENTS	13,418	7,095
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	21,838	14,743
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 35,256	$ 21,838

See Note 17 for supplemental cash flow information

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

1. DESCRIPTION OF BUSINESS

LionOre Mining International Ltd. (the "Company" or "LionOre") is an international mining company headquartered in Canada with mining and exploration interests in Australia and Botswana.

2. ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies with provisions for non-controlling interests. The Company's effective interest in the voting equity share capital of its principal subsidiaries is 100% except for Tati Nickel Mining Company (Proprietary) Limited ("Tati") and Western Minerals Technology Pty. Ltd. in which the interests are 85% and 80%, respectively. Inter-company transactions and balances have been eliminated.

Investments in partnerships and joint ventures subject to joint control are consolidated on a proportionate basis. Under this method, the Company includes in its accounts its proportionate share of the assets, liabilities, revenues and expenses of the entity.

Investments in associated companies where the Company has a significant influence are accounted for by the equity method. Under this method the Company includes in its earnings its share of the earnings or losses of associated companies.

Other long-term investments in companies where the Company does not exercise significant influence are recorded at cost less provisions for impairment, if applicable, to recognize other than temporary declines in value.

b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from those estimates.

c) Revenue recognition

Revenue is recorded when risk and title passes to the buyer and collection of the proceeds is reasonably assured. The passing of title and risk which generally occurs upon shipment is based on terms of the off-take contracts. Revenue is recognized based on the prevailing commodity prices during the period of delivery. Prices used for provisionally priced shipments are based on London Metal Exchange ("LME") prices and are adjusted to actual prices at the time of final settlement.

d) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the amount estimated to be obtained from sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. Inventories of consumable supplies and spare parts expected to be used in production are valued at the lower of cost and net realizable value

e) Cash and cash equivalents

Cash and cash equivalents include cash and money market instruments with an original term to maturity of ninety days or less.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

2. **ACCOUNTING POLICIES (Continued)**

f) *Marketable securities*

Marketable securities are carried at the lower of cost and market value.

g) *Foreign currency translation*

The Company translates monetary assets and liabilities at the rate of exchange in effect at the balance sheet date and non-monetary assets and liabilities at historical exchange rates. Foreign exchange gains and losses on monetary items are recorded on the statement of earnings as they occur. Revenues and expenses are translated at average rates in the month they occurred except for depreciation and amortization, which are translated using the same rates as the related assets.

Financial statements of all self-sustaining foreign operation are translated into U.S. dollars using the current rate method. Under this method assets and liabilities are translated at the rate of exchange in effect at the year end while revenue and expense items are translated at the weighted average exchange rates prevailing during the year. Exchange gains and losses from the translation of such financial statements are deferred and recorded as cumulative translation adjustments in shareholders' equity until realized.

h) *Debt issue costs*

Debt issue costs are deferred and amortized over the term of the related debt using the straight-line method.

i) *Stock based compensation plans*

The Company does not record stock options issued to employees as compensation expense and discloses pro forma information on the fair value of stock compensation issued during the period in the notes to the financial statements. This method is acceptable under existing CICA guidelines for stock based compensation and other stock based payments for the year ended December 31, 2003.

Beginning in the first quarter of 2004, LionOre will expense stock options in the financial statements as a component of compensation expense in accordance with new recommendations of the CICA with respect to stock based compensation which will come into effect for the Company on January 1, 2004.

The fair value of stock compensation issued to employees during 2003 was determined using the Black-Scholes valuation models assuming volatility factors between 44% and 47%, a risk free interest rate between 3% and 3.7% and an expected life of three years.

The fair value of stock compensation issued to employees during 2002 was determined using the Black-Scholes valuation models assuming volatility factors between 51% and 60%, a risk free interest rate between 3.7% and 4.9% and an expected life of three years.

Details of the pro forma net earnings of the Company for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Net earnings	$ 58,078	$ 2,676
Fair value of share compensation to employees	(786)	(224)
Pro forma net earnings	$ 57,292	$ 2,452
Basic and diluted pro forma net earnings per share	$ 0.34	$ 0.02
Diluted net earnings per share	$ 0.33	$ 0.02

The fair value is being recognized on a straight line basis from the date of issue over the vesting period of the related options.

2. ACCOUNTING POLICIES (Continued)

j) Derivative instruments

Derivative instruments may be used to hedge interest rate, commodity price and exchange rate exposures. Accordingly, hedge accounting principles are applied, under which gains and losses on derivatives would be brought to account on the same basis as the gains and losses on the underlying hedged items.

k) Property, plant and equipment

Acquisition costs of mineral development and exploration properties, related mine development, direct exploration and development expenditures are deferred. Once in production, these costs will be amortized on a units-of-production basis over a property's expected economic life. When deferred expenditures on individual producing or development properties exceed the estimated net recoverable value, the properties are written down to the estimated value. Deferred costs relating to abandoned properties are written off.

Property, plant and equipment are stated at the lower of net book value or estimated net recoverable value on the basis of undiscounted estimates of future cash flows. Maintenance, repairs and renewals are charged to operations. Major betterments and replacements are capitalized. Any gains or losses on disposition of property, plant and equipment are included in earnings in the period they occur.

Depreciation is calculated on a straight-line or unit-of production basis over the lesser of an asset's estimated useful life and the life of the mineral property to which it relates.

Interest costs related to expenditures on development and construction of mining property, plant and equipment are capitalized and amortized on the same basis as the related assets. Capitalization ceases when the mine enters commercial operation or development ceases.

l) Reclamation costs

Ongoing reclamation costs are charged to operations in the period in which they are incurred. Estimated closure costs are accrued on a units of production basis.

m) Exploration and development properties

The Company follows the method of accounting for its exploration and development properties whereby all costs related to acquisition, exploration and development are capitalized by property. The carrying value of these properties is reviewed periodically and either written off when it is determined that the expenditures will not result in the discovery of economically recoverable ore reserves or transferred to producing property, plant and equipment when construction of the mine is completed.

The recoverability of amounts shown for exploration properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to finance the development of the properties and on the future profitable production or proceeds from the disposition thereof.

n) Income taxes

Future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

2. ACCOUNTING POLICIES (Continued)

o) Research and development

The Company incurs research and development costs in connection with the development and potential commercialization of new nickel processing technology. Research costs are expensed as incurred. Development costs are deferred to the extent that their recovery can reasonably be regarded as assured. Revenues from testing of pre-production prototypes are applied to reduce research and development costs.

p) Earnings per share

The Company uses the treasury stock method to calculate diluted earnings per share. Basic earnings per share are computed by dividing the net earnings by the weighted average number of common shares outstanding during the year. The diluted earnings per share reflects the potential dilution by including other common share equivalents, including outstanding stock options and convertible debentures, in the weighted average number of common shares outstanding during the year, if dilutive.

q) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

3. ACQUISITIONS

a) Merger Agreement with Dalrymple Resources NL

On June 3, 2003, the Company announced that it entered into an agreement to merge with Dalrymple Resources NL ("Dalrymple"), a company incorporated in Australia and listed on the Australian Stock Exchange. Dalrymple was LionOre's partner in the Wildara Joint Venture, which holds nickel and gold in the North-Eastern Goldfields region of Western Australia, including the Thunderbox gold mine and the nearby Waterloo and Amorac nickel deposits. The ownership structure of these projects and surrounding exploration tenements at the time of the announcement was LionOre 60% (operator) and Dalrymple (40%).

The merger was approved by Dalrymple shareholders on October 20, 2003 and became binding on October 30, 2003, when Dalrymple shares were transferred to LionOre's Australian subsidiary, LionOre Australia Pty Ltd. LionOre has consolidated the net assets and results of operations of Dalrymple from October 30, 2003.

Under the terms of the merger, Dalrymple shareholders received one LionOre share for every 2.92 Dalrymple shares, which resulted in LionOre issuing 24,989,396 new shares to Dalrymple shareholders.

The purchase method of accounting for the transaction has been applied, with LionOre identified as the acquirer.

The fair value of Dalrymple net assets acquired as at October 30, 2003, are as follows:

Cash	$	4.168
Other current assets		3,332
Producing mineral properties, plant & equipment		25,169
Mineral exploration properties		79,391
		112,060
Less: Liabilities		11,101
	$	100,959
Comprised of:		
Share consideration	$	100,841
Costs of acquisition		118
	$	100,959

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

3. ACQUISITIONS (Continued)

a) Merger Agreement with Dalrymple Resources NL (continued)

The value of the share consideration of $100.8 million plus the costs of acquisition of $0.1 million exceeds the $13.3 million book value of the net assets acquired by $87.6 million. The excess has been allocated to the mineral properties, plant and equipment, and mineral exploration properties in order to reflect the fair values of assets acquired at the date of acquisition.

b) Acquisition Of Tati Nickel Mining Company (Proprietary) Limited

On September 30, 2002, the Company, through its wholly-owned subsidiary, Francistown Mining and Explorations Limited, completed the acquisition of an additional 43.35% interest in Tati Nickel Mining Company (Proprietary) Limited ("Tati Nickel") from Anglo American plc for cash consideration of $75.9 million. The transaction resulted in LionOre holding an 85% interest in Tati Nickel, with the Government of the Republic of Botswana holding the remaining 15% interest. Tati Nickel is incorporated in Botswana.

As a result of the transaction, the Company gained effective control of Tati Nickel and consolidated the net assets and results of operations of Tati Nickel commencing on September 30, 2002. From January 1, 2002 to September 30, 2002, the Company accounted for Tati Nickel on the equity basis; therefore, the results for the year ended December 31, 2002 include the equity income from the Company's 41.65% share of Tati Nickel during that period.

The purchase method of accounting was applied to this acquisition. The details of the Tati Nickel net assets consolidated at September 30, 2002 including the fair value of net assets acquired are as follows:

Current assets	$	24,640
Mineral properties, plant and equipment		137,084
Mineral exploration properties		2,716
Other assets		11,906
		176,346
Less: Liabilities		72,003
Non-controlling interest		6,383
	$	97,960

Consisting of:

Carrying value of original investment in Tati Nickel	$	19,962
Cash consideration paid		75,900
Costs of acquisition		2,098
	$	97,960

The cash consideration of the Tati Nickel acquisition of $75.9 million, plus the carrying value of LionOre's original investment in Tati Nickel and the estimated costs of the acquisition amount to $98.0 million. This amount exceeds the $38.9 million book value of LionOre's 85% interest in Tati Nickel by $59.1 million. This excess amount has been applied to the carrying value of property, plant and equipment and mineral exploration properties in order to reflect the fair values of assets acquired at the date of acquisition. A resulting future income tax liability of $19.5 million has also been applied to increase the carrying value of property, plant and equipment and exploration properties.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

3. **ACQUISITIONS (continued)**

b) Acquisition Of Tati Nickel Mining Company (Proprietary) Limited (continued)

The carrying value of the equity investment in Tati Nickel prior to the date of acquisition was as follows:

		2002
Balance at beginning of year	$	18,073
Share of earnings		536
Dividend from Tati Nickel		(958)
Cumulative translation adjustment		2,311
Reduction on consolidation of Tati Nickel as at September 30, 2002		(19,962)
Balance at end of year	$	–

Acquisition of interest in BCL Limited ("BCL")

As part of the acquisition of Tati Nickel, LionOre has also acquired an interest in BCL for cash consideration of $2. BCL operates the concentrating and smelting facility in eastern Botswana that processes the concentrate from Tati Nickel's mines into matte. BCL is a major nickel/copper producer, operating three underground mines, and is the largest private employer in Botswana. The remaining direct and indirect interests in BCL is held by the Government of the Republic of Botswana (33%) and by the public (38%). The Company's interest is comprised of a 7.5% direct interest in BCL and a 25.3% interest in Botswana RST Limited, a holding company whose main asset is an 85% interest in BCL. This investment is recorded at cost as a long term investment in BCL with a carrying value of $2. The Company has no obligation to fund present or future BCL losses nor any right to participate in future BCL earnings.

c) Acquisition of Minority Interest in LionOre Australia (Nickel) Limited

Pursuant to a cash takeover offer for shares it did not already own, on November 28, 2002, the Company acquired in excess of 98% of the outstanding shares in its previously 80% owned subsidiary LionOre Australia (Nickel) Limited ("LionOre Nickel") for cash consideration of A$0.875 ($0.658) per share.

The Company then proceeded to acquire the remaining shares through compulsory acquisition and as at December 31, 2002 the Company owned 100% of LionOre Nickel.

The purchase method of accounting has been applied to this acquisition. The carrying value of net assets acquired by the Company was $1.8 million. The total cash consideration paid of $14.1 million exceeded this carrying value by $12.3 million. This excess amount has been applied to the carrying value of property, plant and equipment and mineral exploration properties in order to reflect the fair values at the date of acquisition.

4. **RESTRICTED CASH**

An amount of $7.5 million has been placed in a reserve account in relation to Tati Nickel's loans with Rand Merchant Bank (Note 11(d)). This amount can be released, subject to certain conditions, in the event of a shortfall in cash flows. Otherwise, the funds will be utilized to fund the final four principal repayments of the Phoenix expansion loan.

An amount of A$3.2 million ($2.4 million) is held for the debt service and performance guarantees related to the project financing for the Emily Ann mine (Note 11(c)). The amounts will be released after the final project loan repayment is made. This loan will be fully repaid in 2004.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

5. ACCOUNTS RECEIVABLE

	Australia	Botswana	Other	Total 2003	2002
Mineral sales receivable	$ 37,979	$ 54,320	$ –	$ 92,299	$ 30,080
Other	2,602	1,465	110	4,177	2,948
	$ 40,581	$ 55,785	$ 110	$ 96,476	$ 33,028

In Australia, mineral sales receivable consists of receivables for sales of nickel concentrate and gold. A substantial portion of estimated amounts due on shipments of nickel concentrate from the port of Esperance are received within a few weeks from the date of shipment, in accordance with the off-take agreement. The final amount is determined after the ore has been processed and the quality of the concentrate assessed. This final determination is typically made within five to six months from the date of shipment. Gold receivables are typically received within 2 weeks of the gold bullion being poured.

In Botswana, mineral sales receivables are due from Centametall AG of Switzerland. Payment terms are set out in the ore and concentrate purchase agreement which stipulates that payment is to be received within 150 days for base metals; and between 240 and 300 days for precious metals. Certain provisional payments for 70% of the estimated amount due in respect of nickel and 90% of that due in respect of remaining metals, less applicable charges, are receivable within 60 days.

All nickel concentrate sales of the company are invoiced in US dollars. Gold sales are denominated in Australian dollars.

6. INVENTORIES

	2003	2002
Nickel concentrate	$ 1,667	$ 1,767
Gold in process	2,356	464
Parts and supplies	7,573	1,959
	$ 11,596	$ 4,190

7. PROPERTY, PLANT AND EQUIPMENT

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Producing mining properties	$ 188,036	$ 33,818	$ 154,218	$ 125,613
Plant and equipment	174,552	33,590	140,962	$ 103,006
	$ 362,588	$ 67,408	$ 295,180	$ 228,619

During 2002, the Company transferred exploration and development property relating to mining tenements with a book value of $32.3 million to property, plant and equipment on completion of mine construction. Also during 2002, the Company capitalized borrowing costs in the amount of $0.2 million to mine properties and $0.4 million to plant and equipment in connection with interest costs incurred on financing mine construction. There were no similar amounts in 2003.

Included in the plant and equipment are capital expenditures incurred on the construction of the Activox® demonstration plant in the amount of $8.5 million and Activox® design and engineering costs of $6.2 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

8. MINERAL EXPLORATION AND DEVELOPMENT PROPERTIES

	2003	2002
Mineral exploration and development properties, beginning of year	$ 41,631	$ 34,980
Expenditures incurred during the year	17,838	25,023
Acquisitions of exploration and development properties	79,391	15,659
Write-down in carrying value	(412)	(418)
Transfer to property, plant and equipment	–	(32,279)
Other	25,503	(1,334)
Mineral exploration and development properties, end of year	$ 163,951	$ 41,631

The balance of exploration and development properties consists of the following:

	2003	2002
Lake Johnston interests (a)		
Maggie Hays	$ 47,867	$ 20,682
Other	9,171	8,415
	57,038	29,097
North-Eastern Goldfields interests (d)		
Wildara Gold	62,001	3,197
Wildara Nickel	24,245	4,093
Other	14,616	1,696
	100,862	8,986
Tati Nickel properties (b)	5,567	3,114
Other (e)	484	434
	$ 163,951	$ 41,631

During the year ended December 31, 2002, construction was completed at the Thunderbox gold mine and consequently, an amount of $32.3 million attributable to the Thunderbox property was transferred to property, plant and equipment from exploration and development properties

The Company did not capitalize borrowing costs in relation to exploration and development properties in 2003. In 2002, an amount of $0.5 million was capitalized in respect of borrowing costs related to mine development.

Details of the exploration and development properties are as follows:

(a) In May 2002, LionOre secured an exclusive option from QNI Pty Ltd to acquire its 69% interest in the Maggie Hays deposit. The option also includes QNI's 67% interest in the surrounding Lake Johnston exploration tenements. The Company exercised this option at a total cost of A$16.7 million ($10.1 million) on March 4, 2003. The cost of this option has been treated as an addition to mineral exploration and development properties. An amount of A$1.1 million ($0.8 million) payable to QNI related to this transaction due within one year of December 31, 2003 is included in accrued liabilities. Additional amounts payable of A$9.6 million ($7.3 million) are included in other liabilities. Amounts are payable in equal quarterly installments, with the final payment to be made in January 2009.

(b) The Company, as part of the acquisition of a controlling interest in Tati Nickel, has acquired mineral and exploration rights related to a mining lease held in North-Eastern Botswana together with a prospecting license for an area adjacent to the mining lease.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

8. MINERAL EXPLORATION AND DEVELOPMENT PROPERTIES (continued)

(c) During 2003, LionOre entered into an agreement with Thundelarra Explorations Ltd (Thundelarra) to earn a 60% interest in a portion of Thundelarra's tenements in the East Kimberley region of Western Australia by funding A$5.0 million ($3.8 million) of exploration on the tenements over a four year period commencing in 2004.

(d) As part of the Dalrymple merger (Note 3(a)), LionOre obtained ownership of tenements around the Thunderbox ore body which include a number of gold prospects. In addition to these, the Company also acquired mineral and exploration rights to various nickel tenements including 40% of the Waterloo and Amorac nickel deposits that the Company did not already own.

(e) The Company has interests in a number of other nickel, gold and other exploration projects.

For those investments in partnerships and joint ventures subject to joint control described immediately above, the Company uses the proportionate consolidation method of accounting. Consequently, these consolidated financial statements include amounts for the Company's proportionate share of those partnerships' and joint ventures' assets, liabilities and cash flows as follows:

	2003	2002
Current assets	$ –	$ 3,039
Capital assets	–	31,235
Current liabilities	–	(3,484
Long term liabilities	–	(22,786
Net equity	$ –	$ 8,004
Revenue	$ 37,945	$ 2,615
Net earnings for the year	$ 15,929	$ 856
Cash flows provided by (used in) operating activities	$ 24,391	$ (514
Cash flows used in investing activities	$ (9,823)	$ (21,668
Cash flows (used in) provided by financing activities	$ (8,897)	$ 20,289

9. OTHER LONG-TERM INVESTMENTS AND OTHER ASSETS

	2003	2002
Debt issue costs	$ 1,072	$ 250
Thundelarra (a)	2,640	–
Other	2,795	1,979
	$ 6,507	$ 2,229

(a) During 2003, LionOre purchased 7.8 million shares of Thundelarra Explorations Ltd. and was granted 11.0 million options in Thundelarra for a total cost of A$3.5 million ($2.6 million). LionOre owns approximately 12% of Thundelarra on an undiluted basis at December 31, 2003. LionOre and Thundelarra also entered into a joint venture agreement as described in Note 8(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

10. SHORT-TERM FINANCING

(a) Through its 85% owned subsidiary Tati Nickel, the Company has a revolving credit facility with Barclays Bank (Botswana) for Botswana pula (BP) 40 million ($9.0 million). The facility bears interest at Botswana Prime less 1%. At December 31, 2003, $4.0 million (2002 - $6.6 million) was drawn on the facility. This amount has been recorded on the balance sheet as short-term financing.

(b) Tati Nickel has an available credit facility with a major international bank for up to $10 million. The facility bears interest at LIBOR + 1.5%. At December 31, 2003 and 2002 there were no amounts drawn on the facility.

11. LONG-TERM DEBT

	2003	2002
12% unsecured debentures, due June 2004 (a)	$ 8,218	$ 6,431
Tati purchase loan (b)	15,000	20,000
Project loans		
Australia (c)	25,060	41,365
Botswana (d)	28,600	31,195
Other	87	2,974
	76,965	101,965
Less:		
Current portion of debentures	8,218	–
Current portion of Tati purchase loan	5,000	5,000
Current portion of project loans	22,150	21,838
Current portion of other	60	–
	35,428	26,838
Total long-term debt	$ 41,537	$ 75,127

(a) 12% Unsecured Debentures

During 2001, the Company raised C$10.85 million through a private placement of Special Warrants exchangeable for unsecured debentures and Share Purchase Warrants. Each Special Warrant was priced at C$1,000 and is exchangeable, without payment of any further consideration, for a unit comprised of C$1,000 principal amount of unsecured debentures and 110 Share Purchase Warrants. On the date of issue the value of the share purchase warrants was determined to be $0.9 million, resulting in a residual value for the unsecured debentures of $6.3 million The unsecured debentures have a term of three years and a 12% coupon rate. Each Share Purchase Warrant is exercisable to June 18, 2004 to purchase one common share of the Company at a price of C$2.00. At December 31, 2003, 1,001,000 (2002 – 1,116,500) of these warrants remain unexercised.

The value of the Share Purchase Warrants is being amortized to income as interest expense and will, over time, serve to increase the value of the unsecured debentures up to their original value of C$10.85 million.

(b) Tati Purchase Loan

To finance the purchase of 43.35% of Tati Nickel (Note 3 (b)), the Company entered into a loan agreement with Barclays Bank plc for $20.0 million. The loan bears interest at LIBOR + 2.5% (3.72% at December 31, 2003) and is repayable in eight semi-annual instalments, beginning June 2003. The loan is secured by the shares of Francistown Mining and Explorations Ltd., LionOre's wholly-owned subsidiary which holds, directly and indirectly, the 85% interest in Tati Nickel.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

11. LONG-TERM DEBT (continued)

(c) *Project Loans – Australia*

i) The Company has a loan of $A27.8 million ($21.2 million) with Macquarie Bank Limited for the construction of the plant and associated infrastructure at the Thunderbox gold mine. The loan, bearing interest at the Bank Bill Rate + 1.65%, is repayable in twelve quarterly installments, which began in February 2003. The loan is secured by a first ranking charge over all assets and undertakings of LionOre Australia (Wildara) NL, including a mining mortgage over certain tenement interests.

ii) The Company has a loan associated with the construction of the Emily Ann nickel mine of approximately A$5.0 million ($3.9 million) bearing interest at the Bank Bill Rate + 2%. The loan is due in ten quarterly installments which began in June 2002. The loan is secured by a charge over the assets of the wholly-owned subsidiary, including a mining mortgage over the Emily Ann deposit and the interest in Maggie Hays and a second ranking charge over.

(d) *Project loans – Botswana*

i) Rand Merchant Bank

Tati Nickel has an outstanding loan from Rand Merchant Bank for $21.0 million for construction of the new concentrator and mine expansion at the Phoenix mine site. The loan bears interest at an effective rate of 7.35% per annum. Principal repayments are due in 12 equal consecutive semi-annual installments which began in November of 2003.

Tati Nickel has a second loan from Rand Merchant Bank for $7.0 million for the construction of the Activox® demonstration plant at the Tati mine site. The loan bears interest at a rate of LIBOR + 2%. The loan is payable in eight equal semi-annual installments beginning June 30, 2004.

The loans are secured by amounts on deposit in a reserve account as described in Note 9, as well as a charge over other deposit accounts, a first mortgage over the mining leases related to the Phoenix mine, and assignment of the company's rights under the Ore and Concentrate Purchase Agreement with Centametall AG.

ii) Tati Nickel has a loan for BP4.1 million ($0.9 million) to be used for exploration. The loan bears interest at 8% per annum. The loan is repayable in 16 equal semi-annual installments which began on June 30, 2001.

(e) *Details of the principal repayments are as follows:*

2004	$	35,428
2005		19,500
2006		10,827
2007		5,715
2008		3,992
Thereafter		1,503
	$	76,965

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

12. INCOME TAXES

The Company's provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the earnings before tax provision as a result of the following:

	2003	2002
Statutory tax rate	36.6%	38.6%
Provision for income taxes computed at the statutory rate	$ (33,057)	$ (941)
Tax benefits not recognized on current year losses	(370)	(1,271)
Reduction in valuation allowance due to recognition of benefit of prior years' tax loss carried forward	–	4,058
Non deductible items and other	(3,265)	(997)
Lower effective tax rate on earnings in foreign jurisdictions	9,939	608
Recovery of (provision for) future income taxes	$ (26,753)	$ 1,457

The tax effects of temporary timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

	2003	2002
Future income tax assets:		
Non-capital loss carry forwards	$ 25,789	$ 20,427
Other	5,580	1,714
	31,369	22,141
Less: valuation allowance	(5,942)	(3,851)
Net future income tax assets	25,427	18,290
Future income tax liabilities:		
Exploration and development properties	$ 53,046	$ 12,113
Plant and equipment	49,768	45,871
Other	36	1,383
	102,850	59,367
Net future income tax liabilities	$ 77,423	$ 41,077

As at December 31, 2003, the Company has estimated a non-capital loss carry-forward in Canada of approximately $15.4 million, which can be applied to reduce future Canadian income taxes payable and will expire in 2004 to 2010. The tax benefit of these loss carry-forwards has not been recognized in these financial statements.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

13. SHARE CAPITAL

At December 31, 2003, the Company has issued the following common shares:

	No. of Shares		Amount
Balance at December 31, 2001	119,630,805	$	145,394
Conversion of 10% unsecured convertible debentures due July 2006	1,136,572		1,348
Conversion of 10% unsecured convertible debentures due May 2005	7,708,327		12,041
Shares issued for special warrants (a)	27,500,000		60,241
Issue of common shares (b)	7,500,000		18,146
Exercise of 12% unsecured debenture purchase warrants (c)	77,000		155
Exercise of stock options (d)	150,000		83
Balance at December 31, 2002	163,702,704	$	237,408
Issued pursuant to Dalrymple merger agreement (e)	24,989,396		100,841
Shares issued to Inco Limited (f)	4,000,000		15,381
Exercise of stock options (d)	1,270,000		1,130
Exercise of 12% unsecured debenture purchase warrants (c)	115,500		260
Balance at December 31, 2003	194,077,600	$	355,020

a) During 2002, the Company completed an offering of 27.5 million special warrants at a price of C$3.65 per warrant for total gross proceeds of $63.8 million (C$100.3 million). Costs of issue amounted to $3.6 million. Each special warrant entitled the holder to receive one common share of the Company for no additional consideration. All special warrants were exercised upon completion of the acquisition of Tati Nickel and no special warrants are outstanding at December 31, 2002.

b) On December 10, 2002 the company completed a public offering of 7.5 million common shares of LionOre at a price of C$4.00 per common share for aggregate gross proceeds of $19.2 million (C$30.0 million). Costs of issue amounted to $1.1 million.

c) During 2003, 115,500 (2002 – 77,000) share purchase warrants issued in connection with the 12% unsecured debentures (Note 11(a)) were exercised for cash proceeds of $0.2 million. An initial value of $0.1 million (2002 - $0.1 million) was attributed to these share purchase warrants at the time of issue and as such was reclassified from the value of share purchase warrants to share capital at the time of exercise. A total of 1,001,000 warrants remain outstanding as at December 31, 2003, with a value of $0.8 million (2002 - $0.9 million). The warrants expire in June 2004.

d) The Company has a stock option plan whereby it may grant options to its employees, directors and officers to purchase shares of common stock. Under the plan, the exercise price of each option equals the average of the market closing price of the Company's stock from the preceding five days prior to the date of the grant and an option's maximum term is 10 years. At December 31, 2003, 8,880,000 (2002 – 9,800,000) common shares were reserved for issuance under the stock option plan, including 5,315,000 (2002 – 5,985,000) shares for options which have not yet been issued.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

13. SHARE CAPITAL (continued)

A summary of the status of the Company's stock option plan as of December 31, 2003 and 2002, and changes during the years ended on those dates is presented below:

(exercise prices in Canadian dollars) Stock Option Activity	Issued and Outstanding Options	Weighted Average Exercise Price
Balance at January 1, 2002	3,360,000	$ 1.97
Exercised in 2002	(150,000)	0.85
Granted in 2002	605,000	3.16
Balance at December 31, 2002	3,815,000	$ 2.20
Exercised in 2003	(1,270,000)	1.24
Granted in 2003	1,075,000	6.03
Cancelled in 2003	(55,000)	4.35
Balance at December 31, 2003	3,565,000	$ 3.67

The following table summarizes the employee stock options outstanding and exercisable at December 31, 2003:

(exercise prices in Canadian dollars)

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
$0.85 – $1.38	840,000	5.32	$ 1.17	840,000	5.32	$ 1.17
$2.30 – $3.14	860,000	7.47	2.85	300,000	6.17	2.30
$3.80 – $4.50	815,000	3.41	4.04	800,000	3.31	4.04
$5.80	800,000	9.18	5.80	–	–	–
$6.35 – $7.45	250,000	9.71	6.81	–	–	–
	3,565,000	6.58	$ 3.67	1,940,000	4.62	$ 2.53

e) In November of 2003, LionOre issued 24,989,396 common shares to the former shareholders of Dalrymple Resources NL (Dalrymple) to effect the merger agreement that was signed by LionOre and Dalrymple on June 3, 2003. (Note 3(a))

f) On March 21, 2003, 4,000,000 shares of the Company were issued to Inco Limited at a price of C$5.75 per share. Gross proceeds were C$23 million ($15.4 million). The proceeds were substantially used to pay down debt owing to Inco in the amount of $14.0 million. The debt was originally incurred to fund the construction of the processing facility at the Emily Ann Nickel mine.

g) During 2003 the Company implemented a shareholders' rights plan which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all their shares in the event a third party attempts to acquire a significant interest in the Company.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

13. SHARE CAPITAL (continued)

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group other than a permitted bidder bids to acquire or acquires 20% or more of the Company's common shares. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in May 2006 unless it is reconfirmed by a majority of the votes cast at the meeting.

The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that:

- The offer must be made to all shareholders of the Company;
- The takeover bid must be made by way of a takeover bid circular and expire not less than 60 days after the date of the bid circular, and
- If more than 50% of the voting shares have been tendered and not withdrawn by independent shareholders pursuant to the Takeover Bid within the 60 day period, the bidder must make a public announcement of that fact and of the fact that the takeover bid must remain open for deposits of shares for not less than ten business days from the date of such public announcement.

14. CUMULATIVE TRANSLATION ADJUSTMENT

	2003	2002
Balance, beginning of year	$ 4,418	$ (12,405)
Unrealized exchange gain on translation	61,385	16,596
Realized translation adjustment on dividend from investee	(781)	227
Balance, end of year	$ 65,022	$ 4,418

15. SEGMENTED INFORMATION

The company operates in the following business segments which have been segregated based on geographic location and by metal sold, reflecting the way management organizes segments within the business for making operating decisions and assessing performance. In the prior year, substantially all metal sales came from nickel operations and, as such, segmentation was based on the geographic locations in which the nickel operations were located. In 2003 the Company's gold operations, comprised mainly of the Thunderbox gold mine and related exploration properties, became a significant contributor to sales and net income and, as such, has been separately evaluated by management. The 2002 segmented information remains unchanged, as the gold operations did not make a significant contribution to sales and income. Descriptions of each segment are as follows:

Australia Gold – The Company owns and operates the Thunderbox gold mine located in the North-Eastern Goldfields of Western Australia and has a number of prospective gold exploration properties.

Australia Nickel – In the Lake Johnston region of Western Australia, the Company owns and operates the Emily Ann nickel mine and the Maggie Hays nickel deposit is currently under development. There are a number of prospective exploration properties held by the Company in this region. In the North-Eastern Goldfields, the Company also holds the Waterloo and Amorac nickel deposits as well as a number of other exploration properties that are prospective for nickel.

Australia Other – LionOre has an administrative office in Perth, Australia that carries on support services for its mining operations. Services such as accounting, finance, human resources, legal and other administrative support that are required by the operations are centralized in this office.

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

15. SEGMENTED INFORMATION (continued)

Botswana – The Company's operations in Botswana are carried on by its 85% owned subsidiary Tati Nickel. Tati operates the Phoenix mine, which is an open pit nickel mine located 35 kms east of Francistown in North-Eastern Botswana.

Other – The Company has administrative offices in Toronto, Canada and London, England that carry on administrative activities such as executive management, investor relations and treasury functions.

	2003					
	Australia Nickel	Australia Gold	Australia Other	Botswana	Other	Total
Mineral sales						
Nickel	$ 84,844	–	–	126,512	–	$ 211,356
Gold	–	51,526	–	349	–	51,875
Copper	760	–	–	15,207	–	15,967
Platinum group metals	–	–	–	10,227	–	10,227
Other minerals	2,049	19	–	1,325	–	3,393
Total mineral sales	87,653	51,545	–	153,620	–	292,818
Other revenues	–	–	–	–	106	106
Total revenues	$ 87,653	51,545	–	153,620	106	$ 292,924
Earnings before interest expense, depreciation, amortization, taxes and non-controlling interest	$ 46,506	32,327	1,266	57,819	(4,040)	133,878
Interest expense	(240)	(951)	(1,271)	(3,395)	(1,867)	(7,724)
Depreciation and amortization	(13,649)	(11,759)	(258)	(10,190)	(29)	(35,885)
Future income taxes recovery (expense)	(10,693)	(6,695)	1,008	(10,020)	(353)	(26,753)
Earnings before non controlling interest	$ 21,924	12,922	745	34,214	(6,289)	$ 63,516
Capital assets	$ 95,585	165,672	1,026	196,750	98	459,131
Other assets	46,079	17,263	8,314	74,428	14,553	160,637
Total segment assets	$ 141,664	182,935	9,340	271,178	14,651	$ 619,768

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

15. SEGMENTED INFORMATION (continued)

	2002			
	Australia	Botswana	Other	Total
Mineral sales				
Nickel	$ 39,991	13,928	–	$ 53,919
Gold	2,615	122	–	2,737
Copper	325	1,221	–	1,546
Platinum group metals	–	2,999	–	2,999
Other minerals	521	253	–	774
Total mineral sales	43,452	18,523	–	61,975
Other revenues	164	1	698	863
Total revenues	$ 43,616	18,524	698	$ 62,838
Earnings before interest expense, depreciation, amortization, taxes and non–controlling interest	$ 14,921	4,945	(2,557)	17,309
Interest expense	(1,869)	(1,036)	(1,650)	(4,555)
Depreciation and amortization	(8,561)	(1,750)	(5)	(10,316)
Future income taxes recovery (expense)	1,772	(315)	–	1,457
Earnings before non controlling interest	$ 6,263	1,844	(4,212)	$ 3,895
Capital assets	$ 109,080	155,693	98	$ 264,871
Other assets	20,167	41,680	15,575	77,422
Total segment assets	$ 129,247	197,373	15,673	$ 342,293

The accounting policies used in these business segments are the same as those described in the significant accounting policies in Note 2 to these financial statements.

16. RELATED PARTY TRANSACTIONS

During 2002, the Company earned management fees from Tati Nickel of $0.6 million. The management fees recorded for 2002 were earned in the nine months ended September 30, 2002, when Tati Nickel was an associated company. From September 30, 2002, following the acquisition of a controlling interest, the Company has consolidated the results of operations of Tati Nickel and accordingly has eliminated any management fees earned subsequent to September 30, 2002.

17. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Changes in non-cash working capital

	2003	2002
Accounts receivable	$ (51,036)	$ (5,511)
Inventories	(1,931)	(1,739)
Other current assets	(596)	(1,449)
Accounts payable and accrued liabilities	6,220	932
	$ (47,343)	$ (7,767)

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

17. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

(b) *Cash payments of interest and income taxes*

		2003		2002
Cash payments for interest	$	7,449	$	4,918
Cash payments for income taxes	$	1,423	$	–

(c) *Non-cash financing activities*

		2003		2002
Assets acquired by issue of shares (Note 3(a))	$	100,841	$	–
Conversion of 10% unsecured debenture (Note 13)	$	–	$	12,041
Conversion of 10% unsecured debenture (Note 13)	$	–	$	1,349

(d) *Exploration*

Amounts spent on exploration of $6.9 million do not include expenditures incurred in 2003 of $1.9 million on exploration in the Lake Johnston region. The amounts were fully funded by Inco Limited pursuant to a joint venture agreement.

18. FINANCIAL INSTRUMENTS AND RISKS

(a) *Interest rate risk*

The Company is subject to interest rate risk that arises from fluctuations in interest rates on its floating rate debt with an aggregate carrying value of $47.0 million at December 31, 2003. The Company does not currently use derivative instruments to manage interest rate risk.

(b) *Foreign exchange and commodity price risk*

Nickel

The Company's future nickel sales revenues from the Emily Ann Mine will vary from time to time with movements in prevailing market nickel prices and the $A/$US exchange rate. In order to manage the price risk associated with financial market fluctuations and meet the requirement of the Company's project financier to the Emily Ann Mine, a nickel hedging program was entered into. This nickel hedging program incorporates both $A and $US denominated nickel forward sales contracts.

During 2001, the Company closed out certain forward sale contracts from its nickel hedge book by entering into nickel forward purchase contracts. These transactions resulted in the purchase of 4,974 tonnes of nickel over the period March 2003 to September 2004 at an average price of A$9,632 per tonne, and in total embedded approximately A$10.1 million in value into the Company's nickel hedge book. This embedded value is scheduled to be realized over the original hedge period. In addition, at times of higher market nickel prices during this period, the Company entered into new nickel forward sale contracts for 1,944 tonnes over the period February 2003 to September 2003.

At December 31, 2003, 2,076 tonnes of nickel, covering approximately 3.5% of estimated future nickel production, were the subject of nickel forward sales contracts at a price of A$10,961 per tonne to September 2004. At December 31, 2003, the Company's nickel hedge book (on a present value basis) compared to prevailing market prices showed an unrealized loss of A$21.7 million ($16.3 million).

18. FINANCIAL INSTRUMENTS AND RISKS (continued)

(b) Foreign exchange and commodity price risk (continued)

Gold

At December 31, 2003, 302,191 ounces of gold, covering approximately 53% of estimated future gold production, were the subject of gold forward sales contracts at a price of A$568 per ounce over the period from January 2004 to July 2007. At that date, the Company's gold hedge book (on a present value basis) compared to prevailing market prices showed an unrealized loss of A$7.9 million ($5.9 million).

(c) Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, short-term financing and long-term debt approximates fair value due to the short-term nature of the instruments or the fact that they bear interest at floating rates.

(d) Concentration of credit risk

All production from Tati Nickel in Botswana is sold through Centametall AG of Switzerland. Smelting is performed at BCL Limited, of Botswana (Note 3(b)) pursuant to a smelting agreement between Centametall and BCL. The smelter matte produced by BCL from Tati ore and concentrates is refined pursuant to a refining agreement between Centametall and Rio Tinto Zimbabwe (Empress Nickel Refinery) and a refining agreement between Centametall and Falconbridge (FNA Refinery).

All mineral concentrates from the Emily Ann nickel mine in Australia are sold, in accordance with an off-take agreement, to Inco Limited of Canada. The off-take agreement commits the Company to sell its total production for the life of the mine to Inco.

The Thunderbox gold mine in Australia produces gold bullion for direct sale to the financial markets in Australia. Currently the company sells all of its gold bullion to Macquarie Bank Limited.

19. COMMITMENTS

The Company has exploration commitments to perform and expend funds in order to retain its interest in formalized agreements with joint venture participants. The amount payable for future exploration commitments is A$4.3 million ($3.2 million).

In order to maintain current rights of tenure to exploration tenements, the Company and joint ventures in which it participates are required to outlay lease rentals and to meet the minimum expenditure requirements of the Department of Minerals and Energy (Western Australia). These obligations are subject to amendment upon expiry of the exploration leases or when application for a mining license is made. These obligations are not provided for in the financial statements. The amount payable for the twelve months ending December 31, 2004 is $6.1 million.

20. CONTINGENCIES

(a) Native Title Claims

A number of native title claims have been applied for under the Native Titles Act 1993 (Cth) ("NTA") over areas of Western Australia in which the Company has an interest. The National Native Title Tribunal has registered some of these claims as the first step in the procedures established under the NTA to enable determination, by the Federal Court of Australia, of whether native title exists.

Although the final effect of these applications is uncertain, they are not currently significantly affecting the activities of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except for per share amounts or as noted)

20. CONTINGENCIES (continued)

(b) Stamp Duty Settlement

The sale of the Bounty Gold Mine to Viceroy Resource Corporation in July of 1999 resulted in an assessment of $2.9 million of Australian stamp duty, including interest. The company paid the amount in full pending a court ruling on the matter and recorded the amount as a deposit. During 2002, the issue was settled, with LionOre agreeing to pay an amount of $1.3 million, with the balance being returned to LionOre in 2003 as a refund of the original deposit. The settlement amount of $1.3 million was recorded as a charge to operations in 2002.

(c) BCL Claim

BCL Limited has claimed an amount of approximately $1.1 million against Tati Nickel related to the specification of concentrates delivered to the BCL smelter. BCL claims that the concentrates supplied did not meet specifications outlined under the smelting agreement and therefore the processing of these concentrates had an adverse effect on BCL operations. The issue is under discussion and analysis and the outcome is not determinable at this time.

(d) Other Claims

The Company is also a party to certain other claims incurred in the normal course of business which, in the aggregate, management does not expect will have a material impact on the results of operations or financial position of the Company.

AUDITORS' REPORT

To the Shareholders of
LionOre Mining International Ltd.:

We have audited the consolidated balance sheets of LionOre Mining International Ltd. as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
February 13, 2004

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements may include amounts which are based on the best estimates and judgments of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three independent directors not involved in the daily operations of the Company. The function of the Audit Committee is to review the quarterly and annual consolidated financial statements, review the adequacy of the system of internal controls, review any relevant accounting, financial and security regulatory matters and recommend the appointment of external auditors. The Audit Committee meets regularly with management and the external auditors of the Company to satisfy itself that their responsibilities have been properly discharged.

The external auditors, Deloitte & Touche LLP, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the consolidated financial statements. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with generally accepted accounting principles in Canada. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

Colin H Steyn
President and Chief Executive Officer

Theodore C Mayers
Chief Financial Officer and Corporate Secretary

Toronto, Ontario
February 13, 2004

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

as at March 19, 2004

Place of Incorporation

LionOre was incorporated in Canada.

Chapters 6, 6A, 6B and 6C of the Australian Corporations Act

LionOre is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares in LionOre in relation to substantial holdings and takeovers.

Limitations imposed on the acquisition of LionOre securities

In Canada, acquisitions of securities by takeover bid are regulated by provincial securities legislation. Generally, under this legislation, an offer to acquire securities from a shareholder resident in a Canadian province which will result in the offeror (including joint actors) holding 20% or more of the issued capital of the company constitutes a takeover bid. Subject to limited exceptions (eg. the purchase of less than 5% of issued share capital over 12 months and offers to no more than 5 persons at no greater than 115% of market price), an offeror must:

(a) provide all shareholders with a takeover bid circular which includes prospectus level disclosure about the offer, the offeror and the subject company;

(b) keep the bid open for at least 35 days; and

(c) deliver the circular and extend the offer to each shareholder of the company, with the ultimate purchase of shares being pro rata amongst those shareholders who have tendered their shares under the bid. Canadian takeover bid rules also provide an early warning system to notify the market of significant accumulations of securities.

Under this system an acquirer must issue a press release to the public and file a report with provincial securities commissions upon the acquisition of 10% or more of the share capital of a company and upon each acquisition of an additional 2%.

Under federal corporate law, a shareholder who acquires 90% or more of the outstanding shares of a public company can acquire the remaining shares at fair market value.

The above is a short summary of certain takeover bid requirements and reference must be made to applicable Canadian corporate and securities legislation, including the requirements of the TSX, for further details of takeover bid provisions and other regulated transactions such as insider bids, related party transactions and private placements, among others.

Summary of stock option plan

Purpose

The purpose of the Stock Option Plan is to provide an incentive to and retain key employees, officers and directors of the Company.

Eligibility to Participate

The Directors have the discretion to grant options to qualifying directors, officers and employees or consultants of LionOre. The options vest a minimum of 2 years from the date of grant.

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

as at March 19, 2004

Maximum Number of Shares to be issued under the Stock Option Plan

The maximum number of options may be granted over an aggregate number of up to 10 million LionOre shares.

Subscription Price

The subscription price for each option shall be established by the Directors on a case by case basis but shall not be less than "market value", meaning the average closing prices of LionOre shares on the Toronto Stock Exchange for the 5 working days prior to the date of grant.

Term

The Directors have discretion as to when any option shall vest and terminate, however, an option shall not vest any earlier than the second anniversary of the date of grant and shall terminate not later than 10 years from that date.

Events of Termination

If an optionholder dies, retires or their office, employment or engagement is terminated, the option shall terminate 90 days after the date that they leave employment or such later date as the Directors may decide. If an optionholder's employment terminates by reason of dismissal for fraud, wilful fault or neglect, the stock option shall terminate from the date of dismissal.

Additional information

In May 1997 LionOre obtained shareholder approval to issue up to 5,000,000 options under the Stock Option Plan and the shareholders approved a further 5,000,000 options available to be issued under the plan in May of 2002, bringing the total of options available to be issued under the plan to 10,000,000 in total.

The total number of Stock Options on issue at March 19, 2004 is 4,605,000. 1,075,000 Stock Options were granted in 2003 of which 470,000 were granted to directors of LionOre and 605,000 were granted to employees of LionOre.

No Substantial Shareholders

No person has a substantial shareholding in LionOre within the meaning of section 617B of the Australian Corporations Act 2001.

Number of LionOre securities quoted on ASX

Number	**Class**
194,077,600	Common Shares

Voting Rights

All LionOre common shares carry one vote per share.

All CHESS Depository Interests **(CDIs)** have been issued over LionOre common shares.

CDI holders are the beneficial owner of common shares and although they are not entitled to attend and vote at LionOre shareholder meetings, CDI holders may direct CHESS Depository Nominees Pty Ltd, as the legal holder of their LionOre common shares, to cast proxy votes at the relevant meeting.

Numbers of LionOre securities not quoted on ASX

Number	**Class**
4,605,000	Stock Options (Employee Stock Option Plan)
1,001,000	Share Purchase Warrants
10,850	Unsecured Debentures

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

as at March 19, 2004

Distribution Schedule of the number of holders of equity securities

	Common Shares*	Employee Stock Options	Share Purchase Warrants	Unsecured Debentures
1 – 1,000	3,347	–	–	24
1,001 – 5,000	701	–	–	3
5,001 – 10,000	140	–	–	–
10,001 – 100,000	151	17	21	–
100,001 and over	40	11	3	–
Total	**4379**	**28**	**24**	**27**
Holdings less than a marketable parcel	79	–	–	–

** The holders of common shares in this Distribution Schedule means registered holders of common shares (shareholders) as recorded in LionOre's securities register as well as CDI holders whose common shares are held CHESS Depository Nominees Pty Ltd.*

Stock Exchange Listings

LionOre securities are quoted as "LIM" on the TSX and the ASX and as "LOR" on the LSE.

Registered Office in Australia and Principal Administrative Office

Registered office in Australia

Level 2
10 Ord Street
West Perth WA 6005
Australia

Principal Administrative Office

20 Toronto Street
12th Floor
Toronto Ontario, Canada M5C 2B8